NEW ISSUE | RATING: Standard & Poor's: AAA

Book-Entry-Only | **(See "RATING" herein)**

In the opinion of Barnes & Thornburg, Indianapolis, Indiana ("Bond Counsel"), under existing laws, interest on the Series 2002 E Bonds (as hereafter defined) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Series 2002 E Bonds. In the opinion of Bond Counsel under existing laws, interest on the Series 2002 E Bonds is exempt from income taxation in the State of Indiana for all purposes except the Indiana financial institutions tax. See "TAX MATTERS" and Appendix C herein.

$10,155,000
Indiana Bond Bank
Special Program Bonds, Series 2002 E

Dated: September 1, 2002 | Due: February 1 as shown on the inside cover

The Indiana Bond Bank Special Program Bonds, Series 2002 E (the "Series 2002 E Bonds") will bear interest from their date to their respective maturities in the amounts and at the rates set forth on the inside front cover. The Series 2002 E Bonds are issuable only as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interests in the Series 2002 E Bonds will be made in book-entry-only form, in the denomination of $5,000 or any integral multiple thereof. Purchasers of beneficial interests in the Series 2002 E Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interests in the Series 2002 E Bonds. Interest on the Series 2002 E Bonds is payable on February 1 and August 1 of each year, commencing February 1, 2003. The principal of, redemption premium, if any, and interest on the Series 2002 E Bonds will be paid directly to DTC by Union Federal Bank of Indianapolis, as trustee (the "Trustee") under the Indenture, as defined and described herein, so long as DTC or its nominee is the registered owner of the Series 2002 E Bonds. The final disbursement of such payments to the Beneficial Owners of the Series 2002 E Bonds will be the responsibility of the DTC Participants and the Indirect Participants, all as defined and more fully described herein under the caption "THE SERIES 2002 E BONDS-Book-Entry-Only System."

The Series 2002 E Bonds are issued by the Indiana Bond Bank (the "Bond Bank") for the principal purposes of (1) providing funds for the purchase of securities of certain Qualified Entities as defined and described herein; (2) paying a portion of the interest due on the Series 2002 E Bonds on February 1, 2003; (3) paying the bond insurance premium and debt service reserve fund credit facility premium to FINANCIAL SECURITY ASSURANCE INC.; and (4) paying costs related to the issuance of the Series 2002 E Bonds, all as more fully described in this Official Statement.

The Series 2002 E Bonds are subject to optional, mandatory sinking fund and extraordinary mandatory redemption prior to maturity as described herein under the caption "THE SERIES 2002 E BONDS-Redemption."

The Series 2002 E Bonds are limited obligations of the Bond Bank payable solely out of the revenues and funds of the Bond Bank pledged therefor under the Indenture. The Series 2002 E Bonds do not constitute a debt, liability or loan of the credit of the State of Indiana (the "State") or any political subdivision thereof, including any Qualified Entity under the constitution and laws of the State or a pledge of the faith, credit and taxing power of the State or any political subdivision thereof, including any Qualified Entity. The source of payment of, and security for, the Series 2002 E Bonds are more fully described herein. The Bond Bank has no taxing power.

(A detailed maturity schedule is set forth on the inside cover)

The scheduled payment of principal of and interest on the Series 2002 E Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series E Bonds by FINANCIAL SECURITY ASSURANCE INC.

The Series 2002 E Bonds are offered when, as and if issued by the Bond Bank and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of legality by Barnes & Thornburg, Indianapolis, Indiana, Bond Counsel. Certain legal matters will be passed on for the Bond Bank by counsel for the Issuer, Hall, Render, Killian, Heath & Lyman, P.S.C., Indianapolis, Indiana, and for the Underwriters by their counsel, Bose McKinney & Evans LLP, Indianapolis, Indiana. It is expected that the Series 2002 E Bonds will be available for delivery to DTC in New York, New York on or about September 12, 2002.

NatCity Investments, Inc. | **McDonald Investments Inc.**
A KeyCorp Company

This cover page contains information for reference only and is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

September 6, 2002

Maturity Schedule
$10,155,000
Indiana Bond Bank
Special Program Bonds, Series 2002 E

$6,565,000 Serial Bonds

Maturity Date	Principal	Interest Rate	Yield
February 1, 2004	$ 250,000	1.650%	1.650%
February 1, 2005	200,000	2.000%	2.080%
February 1, 2006	275,000	2.400%	2.440%
February 1, 2007	275,000	2.750%	2.750%
February 1, 2008	275,000	3.000%	3.080%
February 1, 2009	300,000	3.300%	3.300%
February 1, 2010	300,000	3.500%	3.510%
February 1, 2011	475,000	3.500%	3.620%
February 1, 2012	490,000	3.700%	3.730%
February 1, 2013	510,000	3.800%	3.860%
February 1, 2014	535,000	4.000%	4.000%
February 1, 2017	620,000	4.300%	4.380%
February 1, 2018	650,000	5.250%	4.450% *
February 1, 2019	685,000	5.250%	4.550% *
February 1, 2020	725,000	5.250%	4.650% *

$1,160,000 4.25% Term Bonds due February 1, 2016 - Yield 4.25%

$2,430,000 4.75% Term Bonds due February 1, 2023 - Yield 4.90%

(Accrued interest to be added)

* Priced to the optional redemption date February 1, 2012

INDIANA BOND BANK

<u>Board of Directors</u>
Tim Berry, Chairman, Ex Officio
Clark H. Byrum, Vice Chairman
Russell Breeden, III
Marni McKinney
Morris H. Mills
Charles W. Phillips
C. Kurt Zorn

<u>Officer of the Bond Bank</u>
Dan Huge, Executive Director

<u>Trustee</u>
Union Federal Bank of Indianapolis
Indianapolis, Indiana

<u>Indiana Bond Bank Counsel</u>
Hall, Render, Killian, Heath & Lyman, P.S.C.
Indianapolis, Indiana

<u>Bond Counsel</u>
Barnes & Thornburg
Indianapolis, Indiana

<u>Financial Advisor</u>
Crowe, Chizek and Company LLP
Indianapolis, Indiana

No dealer, broker, salesperson or other person has been authorized by the Bond Bank or by the Underwriters to give any information or to make any representations other than those contained in this Official Statement in connection with the offering of the Series 2002 E Bonds, and if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2002 E Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there have been no changes in the information presented herein since the date hereof.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "Bond Insurance" and Appendix F, "SPECIMEN MUNICIPAL BOND INSURANCE POLICY" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series 2002 E Bonds; or (iii) the tax exempt status of the interest on the Series 2002 E Bonds.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2002 E BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE BOND BANK AND THE TERMS OF THE OFFERING, INCLUDING THE MERIT AND RISK INVOLVED. THE SERIES 2002 E BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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OFFICIAL STATEMENT

$10,155,000
Indiana Bond Bank
Special Program Bonds, Series 2002 E

INTRODUCTION

The purpose of this Official Statement, including the cover page and appendices, is to set forth certain information concerning the issuance and sale by the Indiana Bond Bank (the "Bond Bank") of its $10,155,000 aggregate principal amount of Special Program Bonds, Series 2002 E (the "Series 2002 E Bonds") to be issued by the Bond Bank. The Series 2002 E Bonds are authorized by Resolutions adopted by the Board of Directors of the Bond Bank on June 11, 2002, July 9, 2002, and August 13, 2002 (together, the "Resolutions") and are issued pursuant to the provisions of a Trust Indenture, dated as of September 1, 2002, between the Bond Bank and the Trustee (as hereinafter defined) (the "Indenture"), and the laws of the State of Indiana, including particularly Indiana Code 5-1.5 (as amended from time to time, the "Act"). Union Federal Bank of Indianapolis is the trustee, registrar and paying agent (the "Trustee") under the Indenture.

The proceeds from the sale of the Series 2002 E Bonds will be used to provide funds to (a) purchase the Series 2002 E Qualified Obligations identified in Appendix B of this Official Statement (collectively, the "Series 2002 E Qualified Obligations"), and (b) pay all of the Costs of Issuance (as defined in Appendix E) of the Series 2002 E Bonds, including the underwriters' discount, the bond insurance premium and the debt service reserve fund credit facility premium to Financial Security Assurance Inc. See the caption "PLAN OF FINANCING."

Upon the delivery of the Series 2002 E Bonds and receipt of the net proceeds therefor, the Bond Bank shall deliver to the Trustee a portion of the proceeds of the Series 2002 E Bonds for deposit (1) into the Bond Issuance Expense Account, the sum of $115,000.00, to pay Costs of Issuance (other than underwriters' discount retained by the Underwriters and the premiums for the bond insurance and the debt service reserve fund credit facility paid by the Underwriters directly to the Series 2002 E Bond Insurer for and on behalf of the Bond Bank); and (2) into the General Account $9,973,460.38 which is the remainder of the net proceeds, of which $9,796,750.00 will be used for payments to the Qualified Entities for the purchase of Qualified Obligations identified in Appendix B, and $176,710.38 will be used to pay a portion of the interest on the Series 2002 E Bonds as more fully described in this Official Statement under the captions "PLAN OF FINANCING" and "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2002 E BONDS."

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

The summaries of and references to all documents, statutes and other instruments referred to in this Official Statement do not purport to be complete and are qualified in their entirety by reference to the full text of each such document, statute or instrument. Summaries of certain provisions of the Indenture and definitions of some of the capitalized words and terms used in this Official Statement are set forth in Appendix D and Appendix E. Terms not defined herein shall have the respective meanings ascribed thereto in the Indenture.

Information contained in this Official Statement with respect to the Bond Bank and the Qualified Entities and copies of the Indenture and the Authorizing Instruments (as hereinafter defined) may be obtained from the Indiana Bond Bank, 2980 Market Tower, 10 West Market Street, Indianapolis, Indiana 46204. The Bond Bank's telephone number is (317) 233-0888.

THE SERIES 2002 E BONDS

General Description

The Series 2002 E Bonds are issuable as fully registered bonds in denominations of $5,000 or any integral multiple thereof. The Series 2002 E Bonds will carry an original date of September 1, 2002, and the date of authentication.

Interest on the Series 2002 E Bonds will be payable semi-annually on February 1 and August l of each year, commencing February 1, 2003 (each an "Interest Payment Date"). The Series 2002 E Bonds will bear interest (calculated on the basis of a 30-day month and a 360-day year) at the rates and will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. If a Series 2002 E Bond is authenticated on or prior to January 15, 2003, it shall bear interest from September 1, 2002. Each Series 2002 E Bond authenticated after January 15, 2003, shall bear interest from the most recent Interest Payment Date to which interest has been paid on the date of authentication of such Series 2002 E Bond unless such Series 2002 E Bond is authenticated after a Record Date and on or before the next succeeding Interest Payment Date, in which event the Series 2002 E Bond will bear interest from such next succeeding Interest Payment Date.

When issued, all Series 2002 E Bonds will be registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interests from DTC in the Series 2002 E Bonds will be made in book-entry-only form (without certificates) in the denomination of $5,000 or any integral multiple thereof. So long as DTC or its nominee is the registered owner of the Series 2002 E Bonds payments of the principal of and interest on the Series 2002 E Bonds will be made directly by the Trustee by wire transfer of funds to Cede & Co., as nominee for DTC. Disbursement of such payments to the participants of DTC (the "DTC Participants") will be the sole responsibility of DTC, and the ultimate disbursement of such payments to the Beneficial Owners, as defined herein, of the Series 2002 E Bonds will be the responsibility of the DTC Participants and the Indirect Participants, as defined herein. See the heading, "Book-Entry-Only System" under this caption.

If DTC or its nominee is not the registered owner of the Series 2002 E Bonds, principal of and premium, if any, on all of the Series 2002 E Bonds will be payable at maturity upon the surrender thereof at the principal corporate trust office of the Trustee. Interest on the Series 2002 E Bonds, when due and payable, will be paid by check dated the due date mailed by the Trustee one business day prior to the due date (or, in the case of an owner of Series 2002 E Bonds in an aggregate principal amount of at least $1,000,000, by wire transfer on such due date, upon written direction of such registered owner to the Trustee not less than five business days before the Record Date immediately prior to such Interest Payment Date, which direction shall remain in effect until revoked in writing by such owner) to the persons in whose names such Series 2002 E Bonds are registered, at their addresses as they appear on the bond registration books maintained by the Trustee on the Record Date, irrespective of any transfer or exchange of such Series 2002 E Bonds subsequent to such Record Date and prior to such Interest Payment Date unless the Bond Bank shall default in the payment of interest due on such Interest Payment Date.

Except as provided under "Book-Entry-Only System," in all cases in which the privilege of exchanging or transferring Series 2002 E Bonds is exercised, the Bond Bank will execute and the Trustee will deliver Series 2002 E Bonds in accordance with the provisions of the Indenture. The Series 2002 E Bonds will be exchanged or transferred at the principal corporate trust office of the Trustee only for Series 2002 E Bonds of the same tenor and maturity. In connection with any transfer or exchange of Series 2002 E Bonds, the Bond Bank or the Trustee may impose a charge for any applicable tax, fee or other governmental charge incurred in connection with such transfer or exchange, which sums are payable by the person requesting such transfer or exchange.

The person in whose name a Series 2002 E Bond is registered will be deemed and regarded as its absolute owner for all purposes and payment of principal thereof and interest thereon will be made only to or upon the order of the registered owner or its legal representative, but such registration may be changed as provided above. All such payments shall be valid to satisfy and discharge the liability upon such Series 2002 E Bond to the extent of the sum or sums so paid.

Redemption

Optional Redemption. The Series 2002 E Bonds maturing on or after February 1, 2013 are subject to redemption prior to maturity on or after February 1, 2012, in whole or in part on any date as selected by the Bond Bank, at a redemption price equal to the principal amount of each Series 2002 E Bond to be redeemed, plus accrued interest to the redemption date, and without any redemption premium.

Mandatory Redemption. The Series 2002 E Bonds (or any portions thereof in integral multiples of $5,000 each) maturing on February 1, 2016 and 2023 (the "Term Bonds"), are also subject to mandatory sinking fund redemption prior to their maturity date at a redemption price equal to the principal amount of such Term Bonds, plus accrued interest on February 1 of each year as shown in the following table:

Term Bonds Due February 1, 2016

Year	Principal Amount
2015	$570,000
2016*	$590,000

*Final Maturity

Term Bonds Due February 1, 2023

Year	Principal Amount
2021	$770,000
2022	$805,000
2023*	$855,000

*Final Maturity

Under the Indenture, selection of Term Bonds to be redeemed will be made by lot by the Trustee. In accordance with DTC's standard practices and its agreement with the Bond Bank, DTC and the DTC Participants will make this selection so long as the Series 2002 E Bonds are in book entry form. The principal amount of Term Bonds to be redeemed on each date set forth above will be subject to reduction by the principal amount of any such Term Bonds of the same maturity which, not less than 45 days prior to a sinking fund redemption date, have been theretofore surrendered to or purchased by the Trustee for cancellation and canceled, all in accordance with the Indenture. The principal amount of any Term Bonds so surrendered and canceled in excess of the principal amount scheduled for redemption in any one year will be credited against future redemption obligations and the principal amounts of Term Bonds subject to sinking fund redemption at such times will be accordingly reduced.

Extraordinary Mandatory Redemption. The Series 2002 E Bonds are also subject to extraordinary mandatory redemption in whole or in part, at any time, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date, from and to the extent that moneys are deposited in the Redemption Account from an extraordinary redemption of a Qualified Obligation or from proceeds received upon a default on a Qualified Obligation, unless such moneys can be invested at a yield calculated in accordance with the Code (as defined in Appendix E) over any period of time ending on any subsequent Interest Payment Date which equals or exceeds the average interest rate on the Outstanding Series 2002 E Bonds provided that in the Opinion of Bond Counsel (as defined in Appendix E) such investment would not cause any of the Series 2002 E Bonds to be “arbitrage bonds” as defined in the Code or otherwise cause the interest on the Series 2002 E Bonds to be includable in gross income of the owners thereof for federal income tax purposes.

Cash Flow Certificate. Prior to any optional or extraordinary mandatory redemption of any Series 2002 E Bonds, the Bond Bank will be required under the Indenture to deliver or to cause to be delivered to the Trustee a Cash Flow Certificate (as defined in Appendix E) to the effect that, giving effect to such redemption, Revenues expected to be received, together with moneys expected to be held in the Funds and Accounts, will at least equal debt service on all Outstanding Bonds along with Program Expenses, if any.

Notice of Redemption. In the case of redemption of the Series 2002 E Bonds, notice of the call for any such redemption identifying the Series 2002 E Bonds, or portions of fully registered Series 2002 E Bonds, to be redeemed will be given by mailing a copy of the redemption notice by first class, registered or certified mail not less than 30 days nor more than

45 days prior to the date fixed for redemption to the Registered Owner of the Series 2002 E Bonds to be redeemed at the address shown on the registration books of the Trustee. Failure to give such notice by mailing, or any defect thereof with respect to any Series 2002 E Bonds, shall not affect the validity of any proceedings for the redemption of any other Series 2002 E Bonds. All Series 2002 E Bonds so called for redemption shall cease to bear interest on the specified redemption date, shall no longer be protected by the Indenture and shall not be deemed to be outstanding under the provisions of the Indenture, provided funds for their redemption are on deposit at the place of payment at that time.

Redemption Payments. Prior to the date fixed for redemption, there must be on deposit with the Trustee sufficient funds to pay the Redemption Price of the Series 2002 E Bonds called, together with accrued interest on the Series 2002 E Bonds to the redemption date.

Book-Entry-Only System

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2002 E Bonds. The Series 2002 E Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2002 E Bond will be issued for each maturity of the Series 2002 E Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

2. DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over two million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over eighty-five countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of the Series 2002 E Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2002 E Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2002 E Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2002 E Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2002 E Bonds, except in the event that use of the book-entry system for the Series 2002 E Bonds is discontinued.

4. To facilitate subsequent transfers, all Series 2002 E Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2002 E Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2002 E Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2002 E Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2002 E Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2002 E Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2002 E Bond documents. For example, Beneficial Owners of Series 2002 E Bonds may wish to ascertain that the nominee holding the Series 2002 E Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Series 2002 E Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2002 E Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Bond Bank as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts, the Series 2002 E Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. The principal and interest payments on the Series 2002 E Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Bond Bank or Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), Trustee, or Bond Bank, subject to any statutory or regulatory requirements as may be in effect from time to time. The payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Bank or Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Series 2002 E Bonds at any time by giving reasonable notice to the Bond Bank or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, the Series 2002 E Bond certificates are required to be printed and delivered.

10. The Bond Bank may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the Series 2002 E Bonds certificates will be printed and delivered.

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE BOND BANK BELIEVES TO BE RELIABLE, BUT THE BOND BANK TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

Revision of Book-Entry-Only System

In the event that either (i) the Bond Bank receives notice from DTC to the effect that DTC is unable or unwilling to discharge its responsibilities as a clearing agency for the Series 2002 E Bonds or (ii) the Bond Bank elects to discontinue its use of DTC as a clearing agency for the Series 2002 E Bonds, then the Bond Bank and the Trustee will do or perform or cause to be done or performed all acts or things, not adverse to the rights of the holders of the Series 2002 E Bonds, as are necessary or appropriate to discontinue use of DTC as a clearing agency for the Series 2002 E Bonds and to transfer the ownership of each of the Series 2002 E Bonds to such person or persons, including any other clearing agency, as the holder of such Series 2002 E Bonds may direct in accordance with the Indenture. Any expenses of such a discontinuation and transfer, including any expenses of printing new certificates to evidence the Series 2002 E Bonds, will be paid by the Bond Bank.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2002 E BONDS

The Series 2002 E Bonds will be issued under and secured by the Indenture. The principal of, redemption premium, if any, and interest on any and all of the Series 2002 E Bonds, together with any Refunding Bonds that may be authorized and issued by the Bond Bank under the Indenture on a parity with the Series 2002 E Bonds (collectively, the "Bonds"), are payable from those revenues and funds of the Bond Bank which, together with the Series 2002 E Qualified Obligations and all other qualified obligations pledged under the Indenture (collectively, the "Qualified Obligations"), are pledged pursuant to the Indenture for the benefit of the owners of the Bonds equally, ratably and without priority.

Neither the faith, credit nor taxing power of the State of Indiana (the "State") or any political subdivision thereof including the Qualified Entities (as defined in Appendix E), is pledged to the payment of the principal of, redemption premium, if any, and interest on any of the Bonds. The Bonds are not a debt, liability, loan of the credit or pledge of the faith and credit of the State or of any political subdivision thereof including the Qualified Entities. The Bond Bank has no taxing power and has only those powers and sources of revenue set forth in the Act. The Bonds are issued and secured separately from any other obligations issued by the Bond Bank. The sources of payment of and security for the Bonds are more fully described below.

Under the Indenture, the Bonds are secured by a pledge to the Trustee of the Qualified Obligations and all principal and interest payments made or required to be made on the Qualified Obligations (the "Qualified Obligation Payments"), as described therein. In addition, the Indenture pledges to the payment of the Bonds all proceeds of the Trust Estate, including without limitation all cash and securities held in the Funds and Accounts created by the Indenture, except for the Rebate Fund and the accounts thereunder, together with investment earnings thereon and proceeds thereof (except to the extent transferred to the Rebate Fund from such Funds and Accounts under the Indenture), and all other funds, accounts and moneys to be pledged by the Bond Bank to the Trustee as security under the Indenture, to the extent of any such pledge. Under the Act and Indiana Code 5-1-14-4, such pledge is valid and binding from and after the date of delivery of the Series 2002 E Bonds under the Indenture and such Qualified Obligations and the Qualified Obligation Payments thereon shall be immediately subject to the lien of such pledge without any physical delivery of the payments or further act, and the lien of such pledge is valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Bond Bank, irrespective of whether such parties have notice thereof. The Qualified Obligation Payments with respect to the Series 2002 E Qualified Obligations have been structured as of the date of issuance of the Series 2002 E Bonds to be sufficient along with earnings thereon, and other money in the Funds and Accounts under the Indenture and the earnings thereon, to pay the principal of and interest on the Series 2002 E Bonds when due.

Provisions for Payment of the Qualified Obligations

The payment of principal of and interest on the Qualified Obligations is derived by each of the Qualified Entities from revenues or, in one case, from lease payments required by law to be levied by the lessee as ad valorem taxes upon all the taxable property within the jurisdiction of such lessee. Each of the Qualified Obligations has been issued pursuant to a separate detailed resolution, ordinance or indenture of the governing body of the respective Qualified Entity (collectively and individually, the "Authorizing Instruments"). The sources of payment on the Qualified Obligations are further described below.

Tax-Based Obligations. Political subdivisions in Indiana may enter into leases where the lease payments are derived from unlimited ad valorem taxes and secured by the full faith and credit of the political subdivision.

Each year, political subdivisions in Indiana are required to meet to fix a budget, establish a tax rate and determine the tax levy for the ensuing budget year. The officers of each political subdivision are required by the provisions of Indiana Code 6-1.1-18-3(b) to fix tax rates which are sufficient to provide funds to pay, among other things, the principal of and interest on any obligation of the political subdivision described therein. The appropriation is reviewed by the Department of Local Government Finance to ascertain that the amount of the appropriation is sufficient to meet the political subdivision's debt service obligations. Upon review, the Department of Local Government Finance is authorized by the provisions of Indiana Code 6-1.1-17-17 to increase the tax rate and tax levy of a political subdivision to pay, among other things (i) the principal and interest upon a fund, refunding or judgment funding obligation of the political subdivision, (ii) principal and interest upon an outstanding obligation of a political subdivision, or (iii) a judgment rendered against a political subdivision. In addition, when a political subdivision enters into a lease pursuant to Indiana Code 36-1-10, the political subdivision is required by Indiana Code 36-1-10-17 to make an annual appropriation and tax levy at a rate sufficient to pay the rental payable from property taxes stipulated in the lease. The appropriation and levy are subject to review by other bodies that have the authority to ascertain that the levy is sufficient to raise the amount required to pay the rental payable from property taxes under the lease. White River Township of Hamilton County (the "Township"), as described in Appendix B, will enter into a lease (the "Lease") with the White River Township Public Building Corporation (the "Building Corporation") to fund the construction of a fire station pursuant to Indiana Code 36-1-10. Pursuant to Indiana Code 6-1.1-17-17 and Indiana Code 36-1-10-17, the Department of Local Government Finance is authorized to increase the tax rate and tax levy of the Township to pay the rent due under the Lease to the Building Corporation.

Municipal Sewer Utility Revenue Obligations. The rates and charges of municipal sewage works utilities are presently not under the jurisdiction of the Indiana Utility Regulatory Commission. Under the provisions of Indiana Code 36-9-23, the legislative body of a municipality owning a sewage works utility must enact fair and equitable fees sufficient to provide, among other things, net revenues which fund a sinking fund for the liquidation of bonds or other evidences of indebtedness. Such net revenues are defined as gross revenues less reasonable operation, repair and maintenance costs. Also under the statute, fees which are too low to meet the cash operating and other requirements of the utility, including the payment of debt service, are unlawful. The Town of Pittsboro and the City of Loogootee, described in Appendix B, will issue bonds payable solely from net revenues of their sewage works.

See Appendix B for additional information concerning the Series 2002 E Qualified Obligations.

Enforcement of the Qualified Obligations

As owner of the Qualified Obligations, the Bond Bank has available to it all remedies available to owners or holders of securities issued by Qualified Entities. The Act provides that upon the sale and the delivery of any Qualified Obligation to the Bond Bank, a Qualified Entity will be deemed to have agreed that all statutory defenses to nonpayment are waived in the event that such Qualified Entity fails to pay principal of or interest on such Qualified Obligation when due.

Further, each Qualified Entity, whose Qualified Obligations are subject to the Code, has agreed under the purchase agreement for its respective Qualified Obligation to report to the Bond Bank on its compliance with certain covenants which the Qualified Entity has made regarding various actions and conditions necessary to preserve the tax exempt status of interest paid on the Qualified Obligations. See the caption "TAX MATTERS." The Bond Bank has also determined to consult with the Qualified Entities, as necessary from time to time, with regard to the action needed to be taken by the Qualified Entities to preserve the exclusion of the interest on the Series 2002 E Bonds from the gross income of the holders of the Series 2002 E Bonds.

The Bond Bank will monitor the compliance and consult regularly with the Qualified Entities with respect to their respective requirements under the Qualified Obligations, including the making of Qualified Obligation Payments to the Bond Bank.

Additional Bonds

Additional bonds of the Bond Bank may be issued on a parity with the Series 2002 E Bonds pursuant to the Indenture only for the purpose of refunding (in whole or in part) Bonds issued by the Bond Bank pursuant to the Indenture.

Debt Service Reserve Fund

The Act authorizes and the Indenture requires the Board of Directors of the Bond Bank to establish and maintain the Debt Service Reserve Fund in which there is to be deposited or transferred:

(i) Moneys available to the Bond Bank from proceeds of the sale of the Series 2002 E Bonds;

(ii) All money required to be transferred to the Debt Service Reserve Fund for the replenishment thereof from another Fund or Account under the Indenture;

(iii) All money appropriated by the State for replenishment of the Debt Service Reserve Fund; and

(iv) Any other available money, funds or a Credit Facility that the Bond Bank may decide to deposit in the Debt Service Reserve Fund.

Under the Indenture, the Debt Service Reserve Fund is required to contain an amount equal to the least of (i) the maximum annual debt service on the Bonds, (ii) ten percent of the original stated principal amount of the Bonds, or (iii) 125 percent of average annual debt service on the Bonds.

Moneys in the Debt Service Reserve Fund from time to time will be invested pursuant to the Investment Agreement and it is anticipated that such investment and the earnings thereon will be used to pay a portion of the principal of and interest on the Series 2002 E Bonds. However, there can be no assurance that such moneys or the earnings thereon will be available, if and when needed, to pay debt service on the Series 2002 E Bonds. For further information regarding the Investment Agreement and the nature of and requirements for the investment of the Debt Service Reserve Fund, see "RISKS TO THE OWNERS OF THE SERIES 2002 E BONDS."

Except as provided in the Indenture, moneys in the Debt Service Reserve Fund will be held and applied to the payment of the principal of and interest on the Bonds in cases where sufficient funds are not available in other Funds and Accounts for such payments.

State Appropriations Mechanism

The Act provides that the State General Assembly may annually appropriate to the Bond Bank for deposit in the Debt Service Reserve Fund any sum, required by the Act to be certified by the Chairman of the Board of Directors of the Bond Bank to the State General Assembly prior to December 1 of any year, as may be necessary to restore the Debt Service Reserve Fund to the amount then required to be on deposit in the Debt Service Reserve Fund to the Reserve Requirement. The Indenture further requires such certification to be made by the Chairman to the State General Assembly on or before August 1 of any fiscal year of the Bond Bank ("Fiscal Year") in which the amount in the Debt Service Reserve Fund is projected to be less than the Reserve Requirement. However, nothing in these provisions or any other provision of the Act creates a debt or liability of the State to make any payments or appropriations to or for the use of the Bond Bank. There can be no representation or assurance (i) that a certificate from the Chairman of the Board of Directors of the Bond Bank, stating the amount of a deficiency in the Debt Service Reserve Fund, would be taken up for any or for early consideration by the State General Assembly, or (ii) that upon consideration of any such certificate, the State General Assembly would determine to appropriate funds to reduce or eliminate such deficiency, or (iii) that in the event the State General Assembly determined to make such an appropriation, the amounts thus appropriated would be forthcoming as of any particular date. The Bond Bank has previously issued and has outstanding as of the date of this Official Statement an aggregate principal amount of approximately $266,205,000 in separate program obligations secured by debt service reserve funds, which are also eligible for annual appropriations from the General Assembly.

In accordance with the Constitution of the State, the State General Assembly meets for a maximum period of 61 legislative days in every odd-numbered year in order to establish a budget and to make appropriations. The State General Assembly also meets for a maximum period of 30 legislative days in intervening years in order to make supplemental appropriations. Because the State General Assembly meets for only a portion of each year, there can be no representation or assurance that the State General Assembly could, if it elected to do so, take timely action upon a certificate from the Chairman of the Board of Directors of the Bond Bank in order to provide funds to avoid a default in the payment of principal of or interest on the Bonds.

AGREEMENT WITH THE STATE

Under the Act, the State has pledged to and agreed with the owners of the bonds or notes of the Bond Bank, including the Series 2002 E Bonds, not to limit or restrict the rights vested in the Bond Bank by the Act to fulfill the terms of any agreements made with the owners of such bonds or notes or in any way impair the rights or remedies of such owners until the bonds and notes, together with interest thereon, and interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such owners are fully met, paid and discharged.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Series 2002 E Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Series 2002 E Bonds when due as set forth in the form of the Policy included as Appendix F to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At June 30, 2002, Financial Security's total policyholders' surplus and contingency reserves were approximately $1,710,044,000 and its total unearned premium reserve was approximately $898,579,000 in accordance with statutory accounting principles. At June 30, 2002, Financial Security's total shareholders' equity was approximately $1,817,013,000 and its total net unearned premium reserve was approximately $744,499,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Series 2002 E Bonds. Copies of materials incorporated by reference will be provided upon request to Financial

Security Assurance Inc., 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Series 2002 E Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Series 2002 E Bonds or the advisability of investing in the Series 2002 E Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Bond Bank the information presented under this caption for inclusion in the Official Statement. See "APPENDIX F."

DEBT SERVICE RESERVE FUND CREDIT FACILITY

The Indenture requires the establishment of a Debt Service Reserve Fund in an amount equal to the least of (i) the maximum annual principal and interest requirements on the Bonds or (ii) 125% of average annual principal and interest requirements on the Bonds or (iii) 10% of the stated principal amount of the Bonds. The Indenture authorizes the Bond Bank to obtain a Debt Service Reserve Fund Credit Facility in place of fully funding the Debt Service Reserve Fund. Accordingly, a commitment has been made by Financial Security for the issuance of a Debt Service Reserve Fund Credit Facility (the "FSA Credit Facility") for the purpose of funding the Debt Service Reserve Fund (see "OPERATION OF FUNDS AND ACCOUNTS" herein). The Series 2002 E Bonds will only be delivered upon the issuance of the FSA Credit Facility. The premium on the FSA Credit Facility is to be fully paid at or prior to the issuance and delivery of the Series 2002 E Bonds. The FSA Credit Facility provides that upon the later of (i) one day after receipt by Financial Security of a demand for payment executed by the Trustee certifying that provision for the payment of principal of or interest on the Bonds when due has not been made or (ii) the principal or interest payment date specified in the notice of nonpayment submitted to Financial Security, Financial Security will promptly deposit funds with the Trustee sufficient to enable the Trustee to make such payments due on the Series 2002 E Bonds, but in no event exceeding the FSA Credit Facility coverage, as defined in the FSA Credit Facility.

Pursuant to the terms of the FSA Credit Facility, the FSA Credit Facility coverage is automatically reduced to the extent of each payment made by Financial Security under the terms of the FSA Credit Facility and the Bond Bank is required to reimburse Financial Security for any draws under the FSA Credit Facility with interest at the rate set forth in the Indenture. Upon such reimbursement, the FSA Credit Facility is reinstated to the extent of each principal reimbursement up to but not exceeding the FSA Credit Facility coverage. The reimbursement obligation for the Bond Bank is subordinate to the Bond Bank's obligations with respect to the Bonds.

In the event the amount on deposit, or credited to the Debt Service Reserve Fund, exceeds the amount of the FSA Credit Facility, any draw on the FSA Credit Facility will be made only after all the funds in the Debt Service Reserve Fund have been expended. In the event that the amount on deposit in or credited to the Debt Service Reserve Fund, in addition to the amount available under the FSA Credit Facility, includes amounts available under a letter of credit, insurance policy, surety bond or other such funding instrument (the "Additional Funding Instrument"), draws on the FSA Credit Facility and the Additional Funding Instrument will be made on a pro rata basis to fund the insufficiency.

RISKS TO OWNERS OF THE SERIES 2002 E BONDS

Purchasers of the Bonds are advised of certain risk factors with respect to the payment of the Series 2002 E Bonds. This discussion is not intended to be all-inclusive, and other risks may also be present.

Sources of Payments for the Bonds

The ability of the Bond Bank to pay principal of, and interest on, the Series 2002 E Bonds depends primarily upon the receipt by the Bond Bank of payments pursuant to the Series 2002 E Qualified Obligations, including interest at the rates provided therein, together with earnings on the amounts in the Funds and Accounts sufficient to make such payments. Except for the Debt Service Reserve Fund, there is no source of funds which is required to makeup for any deficiencies in the event of one or more defaults by one or more Qualified Entities in such payments on the Series 2002 E Qualified Obligations. There can be no representation or assurance that all of the Qualified Entities that issued the Series 2002 E Qualified Obligations will receive sufficient taxes or revenues, as the case may be, or otherwise have sufficient funds available to make their required payments on the Series 2002 E Qualified Obligations. The receipt of such revenues by any Qualified Entity is subject to, among other things, future economic conditions, actions by creditors, and other conditions which are variable and not certain of prediction. For a description of procedures for providing for the payment of the Series 2002 E Qualified Obligations, see the captions "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2002 E BONDS - Provisions for Payment of the Qualified Obligations."

The State General Assembly may determine to appropriate funds to the extent of any deficiency in the Debt Service Reserve Fund (see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2002 E BONDS - State Appropriations Mechanism"). However, the State General Assembly is not and cannot be obligated to appropriate any such funds. Moreover, the State General Assembly meets for only a portion of each year commencing in January and ending not later than April 30, unless extended by a special session called by the Governor, and there can be no representation or assurance (i) that a certificate from the Chairman of the Board of Directors of the Bond Bank, stating the amount of a deficiency in the Debt Service Reserve Fund, would be taken up for any or for early consideration by the State General Assembly, or (ii) that upon consideration of any such certificate, the State General Assembly would determine to appropriate funds to reduce or eliminate such deficiency, or (iii) that in the event the State General Assembly determined to make such an appropriation, the amounts thus appropriated would be forthcoming as of any particular date. In no event can or will the Series 2002 E Bonds be deemed to be a debt or obligation of the State. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2002 E BONDS - State Appropriations Mechanism."

Investment Risk

It is expected that the amounts held under the Indenture (the “Investment Amounts”) will be invested in the Investment Agreement entered into by and among the Bond Bank, Trustee and CDC Funding Corp., or another financial institution (the “Financial Institution”) currently rated in one of the two highest rating categories by Standard & Poor’s Ratings Services, a Division of The McGraw-Hill Companies (“S&P”). It is anticipated that the Investment Amounts, together with the earnings thereon, pursuant to the terms of the Investment Agreement will be used to pay all or a portion of principal of and interest on the Series 2002 E Bonds. However, there can be no assurance that the Financial Institution will be able to return the Investment Amounts and the earnings thereon on a timely basis or at the rates contemplated under the Investment Agreement. In the event that the Financial Institution fails to return the Investment Amounts or the earnings thereon on a timely basis or at the rates contemplated under the Investment Agreement, the Investment Amounts and the earnings thereon may be unavailable to pay debt service on the Series 2002 E Bonds. Similarly, there can be no assurance that, in the event of the insolvency, bankruptcy or similar deterioration in financial condition of the Financial Institution, the Investment Amounts and the earnings thereon will be available, if needed, to pay debt service on the Series 2002 E Bonds.

Tax Exemption

The Bond Bank has covenanted under the Indenture to take all actions and not to fail to take any actions required to assure the continuing exclusion of interest on the Series 2002 E Bonds from gross income for federal income tax purposes. Failure by the Bond Bank to comply with such covenants could cause the interest on the Series 2002 E Bonds to be taxable retroactive to the date of issuance. Also, in connection with the original purchase of each of the Qualified Obligations, the Bond Bank received an opinion of counsel by a nationally recognized firm experienced in matters relating to municipal law and matters relating to the exclusion of interest payable on obligations of states and their instrumentalities and political subdivisions from gross income under federal tax law, acceptable to the Bond Bank and the Trustee (an “Opinion of Bond Counsel”), for the Qualified Entity to the effect that, conditioned upon continuing compliance by a Qualified Entity with certain covenants made in connection with the issuance of such Qualified Obligations, the interest on the Qualified Obligations is excluded from the gross income of the holder thereof for federal income tax purposes under existing statutes, decisions, regulations and rulings. However, the interest on such Qualified Obligations could become taxable in the event that the Qualified Entity fails to comply with certain of such covenants, including without limitation the covenant to rebate or cause to be rebated, if necessary, to the United States government all arbitrage earnings with respect to its Qualified Obligations under certain circumstances and the covenant to take all actions and to refrain from such actions as may be necessary to prevent such Qualified Obligations from being deemed to be “private activity bonds” under the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Series 2002 E Bonds and any applicable regulations promulgated thereunder (the “Code”). Such an event could in turn adversely affect the exempt status of the interest on all of the Series 2002 E Bonds retroactive to the date of issuance. See the caption “TAX MATTERS.” The Bond Bank is not aware of any circumstances that would cause the interest on the Qualified

Obligations to be includable in gross income for federal income tax purposes under the Code, but has not undertaken any investigation in connection with this Official Statement.

Limited Remedies

The remedies available to the Trustee, to the Bond Bank or to the owners of the Bonds upon the occurrence of an Event of Default under the Indenture or under the terms of any of the Qualified Obligations or the Investment Agreement are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the "United States Bankruptcy Code"), the remedies provided in the Indenture, the Qualified Obligations, and the Investment Agreement may not be readily available or may be limited.

Bond Insurance

The Series 2002 E Bond Insurer has issued its Series 2002 E Bond Insurance Policy, guaranteeing the payment of the principal (but not premium) of the Series 2002 E Bonds due at maturity, but not as a result of the acceleration thereof (unless consented to by the Series 2002 E Bond Insurer), and interest on the Series 2002 E Bonds due on the interest payment dates therefor. There can be no assurance that the Series 2002 E Bond Insurer will be financially able to meet its contractual obligations under the Series 2002 E Bond Insurance Policy. A form of the Series 2002 E Bond Insurance Policy is attached hereto as Appendix F. Certain information with respect to the Series 2002 E Bond Insurer is set forth under the caption "BOND INSURANCE" herein. Such information was provided by the Series 2002 E Bond Insurer and no representation is made as to the adequacy or the accuracy thereof.

So long as the Series 2002 E Bond Insurer performs its obligations under the Series 2002 E Bond Insurance Policy, the Series 2002 E Bonds cannot be accelerated without the prior written consent of the Series 2002 E Bond Insurer. Furthermore, so long as the Series 2002 E Bond Insurer performs its obligations under the Series 2002 E Bond Insurance Policy, the Series 2002 E Bond Insurer may direct any remedies that the Bondholders may exercise under the Indenture.

In the event that the Series 2002 E Bond Insurer is unable to make payments of principal of and interest on the Series 2002 E Bonds as such payments become due, the Series 2002 E Bonds are payable solely from moneys received by the Trustee as set forth in the Indenture.

In the event that the Series 2002 E Bond Insurer is required to pay principal of or interest on the Series 2002 E Bonds, no representation or assurance is given or can be made that such event will not adversely affect the market price for or marketability of the Series 2002 E Bonds.

PLAN OF FINANCING

The Bond Bank will use a portion of the proceeds of the Series 2002 E Bonds to purchase the Series 2002 E Qualified Obligations identified in the table in Appendix B of this Official Statement. Each of the Qualified Entities issuing the Series 2002 E Qualified Obligations have represented to the Bond Bank that the Qualified Entity will use the proceeds received by it in the sale of the Series 2002 E Qualified Obligations to the Bond Bank to pay for a portion of the costs of the public works projects, all as identified in its respective Authorizing Instrument.

APPLICATION OF PROCEEDS OF THE SERIES 2002 E BONDS

Set forth below is a summary of the estimated sources and uses of the proceeds of the Series 2002 E Bonds, exclusive of accrued interest from the dated date of the Series 2002 E Bonds to the date of delivery, which will be deposited in the General Account of the General Fund:

Sources:

Principal amount	$10,155,000.00
Net original issue premium	46,501.55
Total	$10,201,501.55

Uses:

Acquisition of Series 2002 E Qualified Obligations	$9,796,750.00
Costs of issuance	115,000.00
Underwriter's Discount	76,162.50
Premium for Series 2002 E Bond Insurance Policy	32,431.13
Premium for FSA Credit Facility	17,464.44
Capitalized interest	163,693.48
Total	$10,201,501.55

THE INDIANA BOND BANK

The Bond Bank was created in 1984, and is organized and existing under and by virtue of the Act as a separate body corporate and politic, constituting an instrumentality of the State for the public purposes set forth in the Act. The Bond Bank is not an agency of the State, but is separate from the State in its corporate and sovereign capacity and has no taxing power.

Under separate trust indentures and other instruments authorized under the Act, the Bond Bank has previously issued and has outstanding as of the date of this Official Statement, an aggregate principal amount of approximately $1,992,200,000 in separate program obligations not secured by the Indenture, approximately $266,205,000 of which obligations are secured by debt service reserve funds eligible for annual appropriation by the State General Assembly. Additionally, as of the date of this Official Statement, the Bond Bank is considering undertaking other types of financing for qualified entities for purposes authorized by and in accordance with the procedures set forth in the Act. The obligations issued by the Bond Bank in connection with any and all such financing, if any, will be secured separately from the Series 2002 E Bonds and will not constitute Bonds under the Indenture or for purposes of this Official Statement.

The Act

Pursuant to the Act, the purpose of the Bond Bank is to assist "qualified entities", defined in the Act to include, in part, political subdivisions, as defined in Indiana Code 36-1-2-13, state educational institutions, as defined in Indiana Code 20-12-0.5-1(b), leasing bodies, as defined in Indiana Code 5-1-1-1(a), any commissions, authorities or authorized bodies of any qualified entity, and any organizations, associations or trusts with members, participants or beneficiaries that are all individually qualified entities. The Bond Bank provides such assistance through programs of among other things, purchasing the bonds, notes or evidences of indebtedness of such qualified entities. Under the Act, qualified entities include entities such as cities, towns, counties, school corporations, library corporations, special taxing districts, state educational institutions, charter schools and nonprofit corporations and associations which lease facilities or equipment to such entities. Each of the entities listed in Appendix B is a "qualified entity" within the meaning of the Act.

Powers Under the Act

Under the Act, the Bond Bank has a perpetual existence and is granted all powers necessary, convenient or appropriate to carry out its public and corporate purposes including, without limitation, the power to do the following:

1. Make, enter into and enforce all contracts necessary, convenient or desirable for the purposes of the Bond Bank or pertaining to: (i) a loan to or a lease or an agreement with a qualified entity; (ii) a purchase, acquisition or a sale of qualified obligations or other investments; or (iii) the performance of its duties and execution of its powers under the Act;

2. Purchase, acquire or hold qualified obligations or other investments for the Bond Bank's own account or for a qualified entity at such prices and in a manner as the Bond Bank considers advisable, and sell or otherwise dispose of the qualified obligations or investments at prices without relation to cost and in a manner the Bond Bank considers advisable;

3. Fix and establish terms and provisions upon which a purchase or loan will be made by the Bond Bank;

4. Prescribe the form of application or procedure required of a qualified entity for a purchase or loan and enter into agreements with qualified entities with respect to each purchase or loan;

5. Render and charge for services to a qualified entity in connection with a public or private sale of any qualified obligation, including advisory and other services;

6. Charge a qualified entity for costs and services in review or consideration of a proposed purchase, regardless of whether a qualified obligation is purchased, and fix, revise from time to time, charge and collect other Program Expenses properly attributable to qualified entities;

7. To the extent permitted by the indenture or other agreements with the owners of bonds or notes of the Bond Bank, consent to modification of the rate of interest, time and payment of installments of principal or interest, security or any other term of a bond, note, contract or agreement of any kind to which the Bond Bank is a party;

8. Appoint and employ general or special counsel, accountants, financial advisors or experts, and all such other or different officers, agents and employees as it requires;

9. In connection with the purchase of any qualified obligations, consider the need, desirability or eligibility of the qualified obligation to be purchased, the ability of the qualified entity to secure financing from other sources, the costs of such financing and the particular public improvement or purpose to be financed or refinanced with the proceeds of the qualified obligation to be purchased by the Bond Bank;

10. Temporarily invest moneys available until used for making purchases, in accordance with the indenture or any other instrument authorizing the issuance of bonds or notes; and

11. Issue bonds or notes of the Bond Bank in accordance with the Act bearing fixed or variable rates of interest in aggregate principal amounts considered necessary by the Bond Bank to provide funds for any purposes under the Act; provided, that the total amount of bonds or notes of the Bond Bank outstanding at any one time may not exceed any aggregate limit imposed by the Act, currently fixed at $1,000,000,000. Such aggregate limit of $1,000,000,000 does not apply to: (i) bonds or notes issued to fund or refund bonds or notes of the Bond Bank; (ii) bonds or notes issued for the purpose of purchasing an agreement executed by a qualified entity under Indiana Code 21-1-5; (iii) bonds, notes or other obligations not secured by a reserve fund under Indiana Code 5-1.5-5; (iv) bonds, notes, or other obligations if funds and investments, and the anticipated earned interest on those funds and investments, are irrevocably set aside in amounts sufficient to pay the principal, interest, and premium on the bonds, notes, or obligations at their respective maturities or on the date or dates fixed for redemption; and (v) obligations of certain types of qualified entities that have separate limits.

Under the Act, the Bond Bank may not do any of the following:

1. Lend money other than to a qualified entity;

2. Purchase a security other than a qualified obligation to which a qualified entity is a party as issuer, borrower or lessee, or make investments other than as permitted by the Act;

3. Deal in securities within the meaning of or subject to any securities law, securities exchange law or securities dealers law of the United States, the State or any other state or jurisdiction, domestic or foreign, except as authorized by the Act;

4. Emit bills of credit or accept deposits of money for time or demand deposit, administer trusts or engage in any form or manner, or in the conduct of, any private or

commercial banking business or act as a savings bank, savings association or any other kind of financial institution; or

5. Engage in any form of private or commercial banking business.

Organization and Membership of the Bond Bank

The membership of the Bond Bank consists of seven Directors: the Treasurer of State, serving as Chairman Ex Officio, the Director of the State Department of Financial Institutions, appointed by the Governor and serving as Director Ex Officio, and five Directors appointed by the Governor of the State. Each of the five Directors appointed by the Governor must be a resident of the State and must have substantial expertise in the buying, selling and trading of municipal securities or in municipal administration or public facilities management. Each such Director will serve for a three-year term as set forth below and until a successor is appointed and qualified. Each such Director is also eligible for reappointment and may be removed for cause by the Governor. Any vacancy on the Board is filled by appointment of the Governor for the unexpired term only.

The Directors elect one Director to serve as Vice Chairman. The Directors also appoint and fix the duties and compensation of an Executive Director, who serves as both secretary and treasurer. The powers of the Bond Bank are vested in the Board of Directors, any four of whom constitute a quorum. Action may be taken at any meeting of the Board by the affirmative vote of at least four Directors. A vacancy on the Board does not impair the right of a quorum to exercise the powers and perform the duties of the Board of Directors of the Bond Bank.

Directors

The following persons, including those persons with the particular types of experience required by the Act, comprise the present Board of Directors of the Bond Bank:

Tim Berry, Treasurer of the State of Indiana, February 10, 1999-present, and Chairman Ex Officio. Residence: Indianapolis, Indiana, Member, Indiana State Board Finance; Vice Chairman, Indiana Housing Finance Authority; Secretary-Investment Manager, Indiana Board for Depositories; Member, Governing Board of the Indiana Department of Revenue; Treasurer, Indiana State Office Building Commission; Treasurer, Indiana Recreational Development Commission; Trustee, Indiana State Police Pension Fund; Board Member, Indiana Transportation Finance Authority.

Clark H. Byrum, Vice Chairman; term expires July 1, 2003. Residence: Indianapolis, Indiana. Chairman of the Board and President, The Key Corporation, Indianapolis, Indiana, 1977 to present; Chairman of the Board, American State Bank of Lawrenceburg, Aurora and Greendale, Indiana, 1990 to present; Board Member, NCB Corporation and NorCen Bank, 1986 to present; Member, American Bankers Association; Member, Indiana Bankers Association; Member, National Association of Life Underwriters.

Charles W. Phillips, Director of the Indiana Department of Financial Institutions, 1989 to present, and Director Ex Officio, serving at the pleasure of the Governor. Residence: New Albany, Indiana. Director Ex Officio, Indiana Housing Finance Authority; President, Floyd County Bank, New Albany, Indiana, 1962-1985; Former Examiner, Federal Deposit Insurance Corporation.

Russell Breeden, III, Director; term expires July 1, 2003. Residence: Indianapolis, Indiana. Chairman of the Board and CEO, Community First Financial Group, Inc., 1993 to February, 2002; Director, English State Bank, 1993 to present; Chairman, Peoples Trust Bank Company, 1994 to present; Chairman, Peninsula Banking Group, 1995 to present; Chairman, Bay Cities National Bank, 1995 to present; Director and President, Bettenhausen Motorsports, Inc., 1988 to present.

Morris H. Mills, Director; term expires July 1, 2003. Residence: Ladoga, Indiana. Partner, Mills Bros. Farms; Member, Indiana State Senate, 1972 to 2000; Member, Indiana State House of Representatives, 1968 to 1972; Director and Officer, Maplehurst Group, 1954 to 1996.

C. Kurt Zorn, Director; term expires July 1, 2003. Residence: Bloomington, Indiana. Professor of Public and Environmental Affairs, Indiana University, 1994 to Present; Chairman, State Board of Tax Commissioners, January 1991 -August 1994; Associate Professor, School of Public and Environmental Affairs, Indiana University, 1987-1994 (on leave 1989-1992); Member, American Economic Association; Member, National Tax Association; Member, Governmental Finance Officers Association.

Marni McKinney, Director; term expires July 1, 2003. Residence: Indianapolis, Indiana. Chairman, First Indiana Bank; Vice Chairman & Chief Executive Officer; First Indiana Corporation; Board of Directors, Indianapolis Public Transit Authority; Member, America's Community Bankers Association.

The Directors are authorized to appoint and fix the duties and compensation of an Executive Director, who serves as both secretary and treasurer of the Board of Directors. Dan Huge was appointed Executive Director of the Indiana Bond Bank on October 9, 2001. Mr. Huge previously served as the Deputy Director of the Indianapolis Local Public Improvement Bond Bank for over three years. Mr. Huge has over 14 years of corporate accounting and managerial experience. He is a Certified Public Accountant and holds a B.S. from Purdue University.

REVENUES, FUNDS AND ACCOUNTS

The Indenture creates certain Funds and Accounts identified in more detail below. Pursuant to the Indenture, the Trustee will deposit the net proceeds of the Series 2002 E Bonds, together with other moneys into these Funds and Accounts as described below. Appendix D sets forth a summary of certain provisions of the Indenture.

Creation of Funds and Accounts

The Indenture establishes the following Funds and Accounts to be held by the Trustee:

1. General Fund - comprised of the following:
   (a) General Account
   (b) Bond Issuance Expense Account
   (c) Redemption Account

2. Debt Service Reserve Fund

3. Rebate Fund

Deposit of Net Proceeds of the Series 2002 E Bonds, Revenues and Other Receipts

On the date of delivery of the Series 2002 E Bonds, the Trustee will deposit the proceeds from the sale of the Series 2002 E Bonds, together with other moneys made available by the Bond Bank, as follows:

(a) Into the Bond Issuance Expense Account of the General Fund, the amount of $115,000.00 in order to pay the Costs of Issuance (other than the underwriter's discount retained by the Underwriters and the bond insurance and debt service reserve fund credit facility premiums paid by the Underwriters directly to the Financial Security for and on behalf of the Bond Bank); and

(b) Into the General Account of the General Fund, the sum of $9,796,750.00, which will be used to purchase the Series 2002 E Qualified Obligations, and $176,710.38, which will be used to pay a portion of the interest on the Series 2002 E Bonds on February 1, 2003.

The Trustee will deposit all Revenues and all other receipts (except the proceeds of the Series 2002 E Bonds, and moneys received by the Bond Bank from the sale or redemption prior to maturity of the Series 2002 E Qualified Obligations) into the General Account of the General Fund and will deposit any moneys received from the sale or redemption prior to maturity of the Series 2002 E Qualified Obligations into the Redemption Account of the General Fund. Thereafter, the Trustee will deposit the proceeds of any Refunding Bonds as provided under the Supplemental Indenture authorizing the issuance of such Refunding Bonds.

OPERATION OF FUNDS AND ACCOUNTS

General Fund

General Account. The Trustee will deposit in the General Account of the General Fund all moneys required to be deposited therein pursuant to the Indenture. The Trustee will invest such funds in accordance with the Indenture and will make the following payments from the General Account on the specific dates, and if there are not sufficient funds to make all the payments required, with the following order of priority:

(a) On the date of initial delivery of the Series 2002 E Bonds and upon the submission of requisitions of the Bond Bank signed by an Authorized Officer, stating that all of the requirements with respect to such financing set forth in the Indenture have been or will be complied with, an amount sufficient to purchase the Series 2002 E Qualified Obligations;

(b) On or before 10:00 A.M. in the city in which the Trustee is located, on the business day next preceding each Interest Payment Date, to the Trustee such amount as shall be necessary to pay the principal and interest coming due on the Bonds on such Interest Payment Date;

(c) As soon as funds become available, and only to the extent necessary, to the Debt Service Reserve Fund, sufficient amounts to assure that the Reserve Requirement is met;

(d) At such times as shall be necessary, amounts to pay the Program Expenses, but only to the extent contemplated in the most recent Cash Flow Certificate;

(e) On or before thirty (30) days after each anniversary of the issuance of the Series 2002 E Bonds, any amount necessary to comply with any Rebate Fund requirements; and

(f) After making such deposits and disbursements and after the Trustee will make a determination of the amounts reasonably expected to be received in the form of Qualified Obligation Payments under the Indenture in the succeeding twelve months, to any other fund or account maintained by the Bond Bank, regardless of whether such fund or account is subject to the lien of the Indenture, all moneys in the General Fund which, together with such expected receipts for the succeeding twelve months are in excess of the amounts needed to pay principal of and interest on the Bonds within the immediately succeeding twelve-month period. No moneys shall be so transferred unless the Bond Bank provides the Trustee with a Cash Flow Certificate to the effect that after such transfer, Revenues expected to be received, together with moneys expected to be held in the Funds and Accounts, will at least equal debt service on all Outstanding Bonds along with Program Expenses, if any.

Bond Issuance Expense Account. The Trustee will disburse the amounts held in the Bond Issuance Expense Account upon receipt of invoices or requisitions certified by the Executive Director of the Bond Bank to pay the Costs of Issuance of the Bonds or to reimburse the Bond Bank for amounts previously advanced for such costs. On March 1, 2003, any amounts remaining in the Bond Issuance Expense Account will be transferred to the General Account, at which time the Bond Issuance Expense Account may, at the direction of the Bond Bank, be closed.

Redemption Account. (a) The Trustee will deposit in the Redemption Account all moneys received upon the sale or redemption prior to maturity of the Qualified Obligations and will disburse the funds in the Redemption Account as follows:

(1) On the fifteenth day of each month, to the General Account amounts of moneys equal to the amount of principal which would have been payable during the following month if such Qualified Obligation had not been sold or redeemed prior to maturity.

(2) On the second business day next preceding each Interest Payment Date if moneys in the General Account are not sufficient to make the payments of principal and interest required to be made on such date, the Trustee shall transfer to the General Account moneys in the Redemption Account not already committed to the redemption of Bonds for which notice of redemption has been given.

(3) After making provisions for the required transfers to the General Account as described in subparagraphs (1) and (2) above, (i) to redeem Bonds of such maturity or maturities as directed by an Authorized Officer of the Bond Bank, if such Bonds are then subject to redemption, (ii) to the extent there are any excess moneys in the Redemption Account, to the General Account, (iii) to purchase Bonds of such maturity or maturities as directed by an Authorized Officer at the most advantageous price obtainable with reasonable diligence, whether or not such Bonds are then subject to redemption, or (iv) to make investments of such moneys until the payment of Bonds at their maturity or maturities as directed by an Authorized Officer in accordance with the Indenture. Such purchase price may not, however, exceed the Redemption Price which would be payable on the next ensuing date on which the Bonds of the Series so purchased are redeemable according to their terms unless the Bond Bank provides the Trustee with a Cash Flow Certificate to the effect that the purchase at a price in excess of the Redemption Price will not result in Revenues, together with moneys expected to be held in the Funds and Accounts, being less than an amount equal to debt service on all Outstanding Bonds along with Program Expenses, if any. The Trustee will pay the interest accrued on the Bonds so purchased to the date of delivery thereof from the General Account and the balance of the purchase price from the Redemption Account, but no such purchase shall be made by the Trustee within the period of sixty (60) days next preceding an Interest Payment Date or a date on which such Bonds are subject to redemption under the provisions of the Indenture or the Supplemental Indenture authorizing the issuance of such Bonds. The Trustee will deliver the Bonds so purchased to the Trustee within five (5) days from the date of delivery to the Trustee.

(4) In the event that the Trustee is unable to purchase Bonds as described in clause (iii) of subparagraph (3) above, then, subject to restrictions on redemption set forth in the Indenture, the Trustee will call for redemption on the next redemption date such amount of Bonds of such maturity or maturities as directed by an Authorized Officer of the Bond Bank as will exhaust the Redemption Account as nearly as may be possible at the applicable Redemption Price. The Trustee will pay the interest accrued on any such redeemed Bonds to the date of redemption from the General Account and will pay the Redemption Price from the Redemption Account.

(b) The Trustee may, upon written direction from the Bond Bank, transfer any moneys in the Redemption Account to the General Account if the Bond Bank provides the Trustee with a Cash Flow Certificate to the effect that after such transfer and after any transfer from the General Account to the Bond Bank, Revenues, together with moneys expected to be held in the Funds and Accounts, will at least equal debt service on all Outstanding Bonds along with Program Expenses, if any.

Debt Service Reserve Fund

The Trustee will deposit in the Debt Service Reserve Fund all moneys required to be deposited therein pursuant to the Indenture, will invest such funds, and, except as provided in the Indenture, will disburse the funds held in the Debt Service Reserve Fund solely to the General Account for the payment of interest on and principal of the Bonds and only in the event that moneys in the General Account are insufficient to pay principal of and interest on the Bonds after all of the transfers thereto required to be made under the Indenture from the Redemption Account have been made. Amounts in the Debt Service Reserve Fund in excess of the Reserve Requirement will be transferred to the General Account or the Redemption Account, as directed by the Bond Bank.

The Bond Bank may cause to be deposited into the Debt Service Reserve Fund for the benefit of the holders of the Series 2002 E Bonds a Debt Service Reserve Fund Credit Facility. If such deposit causes the Debt Service Reserve Fund to be equal to the Reserve Requirement, moneys in the Debt Service Reserve Fund in excess of that needed for the Debt Service Reserve Fund to be equal to the Reserve Requirement will be moved in accordance with the Indenture, subject to the satisfaction of any Debt Service Reserve Fund Reimbursement Obligations from such excess as described below. If a disbursement is made pursuant to a Debt Service Reserve Fund Credit Facility, the Bond Bank will be obligated (but solely from the appropriations, if any, made and available pursuant to the Indenture or if otherwise available from the Trust Estate) within twelve months from the date on which such disbursement was made, to cure such deficiency, either (i) to reinstate the maximum limits of such Debt Service Reserve Fund Credit Facility or (ii) to deposit cash into the Debt Service Reserve Fund, or a combination of such alternatives, so that the Debt Service Reserve Fund is equal to the Reserve Requirement. The Trustee will include in the total amount held in the Debt Service Reserve Fund an amount equal to the maximum principal amount which could be drawn by the Trustee under any such Debt Service Reserve Fund Credit Facility on deposit with the Trustee. Amounts required to be deposited in the Debt Service Reserve Fund will include any amount required to satisfy a Debt

Service Reserve Fund Reimbursement Obligation for any Debt Service Reserve Fund Credit Facility. The Trustee is authorized to move the amounts to satisfy the Debt Service Reserve Fund Reimbursement Obligations to the provider of the Debt Service Reserve Fund Credit Facility. (See "DEBT SERVICE RESERVE FUND CREDIT FACILITY" herein.)

Rebate Fund

The Trustee will establish and maintain, so long as any Bonds are outstanding and are subject to a requirement that arbitrage profits be rebated to the United States, a separate fund to be known as "Rebate Fund." The Trustee will make information regarding the Bonds and investments hereunder available to the Bond Bank and will make deposits in and disbursements from the Rebate Fund in accordance with the written instructions received from the Bond Bank and pursuant to the Indenture, will invest the Rebate Fund pursuant to written investment instructions received from the Bond Bank and will deposit income from such investments immediately upon receipt thereof in the Rebate Fund.

If a deposit to the Rebate Fund is required as a result of the computations made by the Bond Bank, the Trustee will upon receipt of written directions from the Bond Bank accept such payment for the benefit of the Bond Bank and make transfers of moneys from the General Account to the Rebate Fund to comply with such direction. If amounts in excess of that required to be rebated to the United States of America accumulate in the Rebate Fund, the Trustee will upon written direction from the Bond Bank transfer such amount to the General Account. Records of the determinations required by the Indenture and the investment instructions must be retained by the Trustee until six (6) years after the Bonds are no longer Outstanding.

Not later than sixty (60) days after the fifth anniversary date of the date of issuance of the Series 2002 E Bonds, and every five (5) years thereafter, the Bond Bank will pay to the United States the amount required to be paid to the United States pursuant to the Code as of such payment date, and not later than sixty (60) days after the final retirement of the Bonds, the Bond Bank will pay to the United States the amount required to be paid to the United States pursuant to the Code as of such retirement date. Each payment required to be paid to the United States pursuant to the Indenture will be, together with a properly completed Internal Revenue Service Form 8038-T, filed with the Internal Revenue Service Center, Ogden, Utah 84201.

Amounts Remaining in Funds

Any amounts remaining in any Fund or Account after full payment of all of the Bonds outstanding under the Indenture, all required rebates and the fees, charges and expenses of the Trustee will be distributed to the Bond Bank.

LITIGATION

There is not now pending or, to the Bond Bank's knowledge, threatened any litigation: restraining or enjoining the issuance, sale, execution or delivery of the Series 2002 E Bonds; seeking to prohibit any transactions contemplated by the Indenture; or in any way contesting or affecting the validity of the Series 2002 E Bonds or the Series 2002 E Qualified Obligations or any proceedings of the Bond Bank taken with respect to the issuance or sale of the Series 2002 E Bonds, or the Pledges (as hereinafter defined under the caption "ENFORCEABILITY OF REMEDIES") or application of any moneys or security provided for payment of the Series 2002 E Bonds or the Series 2002 E Qualified Obligations. Neither the creation, organization or existence of the Bond Bank nor the title of any of the present directors or other officers of the Bond Bank to their respective offices is being contested.

TAX MATTERS

In the opinion of Barnes & Thornburg, Indianapolis, Indiana, Bond Counsel, under existing law, interest on the Series 2002 E Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Series 2002 E Bonds (the "Code"). The opinion of Barnes & Thornburg is based on certain certifications, covenants and representations of the Bond Bank and the Qualified Entities issuing the Series 2002 E Qualified Obligations and is conditioned on continuing compliance therewith. In the opinion of Barnes & Thornburg, Indianapolis, Indiana, Bond Counsel, under existing laws, interest on the Series 2002 E Bonds is exempt from income taxation in the State of Indiana for all purposes except the State financial institutions tax. See Appendix C for the form of Bond Counsel opinion.

The Code imposes certain requirements which must be met subsequent to the issuance of the Series 2002 E Bonds as a condition to the exclusion from gross income of interest on the Series 2002 E Bonds for federal income tax purposes. Noncompliance with such requirements may cause interest on the Series 2002 E Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue, regardless of the date on which noncompliance occurs. Should the Series 2002 E Bonds bear interest that is not excluded from gross income for federal income tax purposes, the market value of the Series 2002 E Bonds would be materially and adversely affected. The Tax Covenants include covenants that: (i) the Bond Bank and Series 2002 E Qualified Entities will not take or fail to take any action with respect to the Series 2002 E Bonds, if such action or omission would result in the loss of the exclusion from gross income for federal income tax purposes of interest on the Series 2002 E Bonds under Section 103 of the Code, and the Bond Bank and Series 2002 E Qualified Entities will not act in any other manner which would adversely affect such exclusion; (ii) the Bond Bank and Series 2002 E Qualified Entities will not make any investment or do any other act or thing during the period that the Series 2002 E Bonds are outstanding which would cause the Series 2002 E Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code; and (iii) if required by the Code, the Bond Bank will rebate any necessary amounts to the United States of America. It is not an event of default under the Indenture or the Authorizing Instruments if interest on the Series 2002 E Bonds or the Series 2002 E Qualified Obligations, respectively, is not excluded from gross income for federal income tax purposes pursuant to any provision of the Code which is not in effect on the date of issuance of the Series 2002 E Bonds.

The interest on the Series 2002 E Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, interest on the Series 2002 E Bonds is includable in adjusted current earnings in calculating corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax.

The Series 2002 E Bonds are not "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.

Indiana Code 6-5.5 imposes a franchise tax on certain taxpayers (as defined in Indiana Code 6-5.5) which, in general, include all corporations which are transacting the business of a financial institution in the State. The franchise tax is measured in part by interest excluded from gross income under Section 103 of the Code minus associated expenses disallowed under Section 265 of the Code.

Although Bond Counsel will render an opinion that interest on the Series 2002 E Bonds is excluded from gross income for federal income tax purposes and exempt from certain State income tax, the accrual or receipt of interest on the Series 2002 E Bonds may otherwise affect an owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the owner's particular tax status and the owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any other such tax consequences. Prospective purchasers of the Series 2002 E Bonds should consult their own tax advisors with regard to other tax consequences of owning the Series 2002 E Bonds.

The foregoing does not purport to be a comprehensive description of all of the tax consequences of owning the Series 2002 E Bonds. Prospective purchasers of the Series 2002 E Bonds should consult their own tax advisors with respect to the foregoing and other tax consequences of owning the Series 2002 E Bonds.

ORIGINAL ISSUE DISCOUNT

The initial public offering price of the Series 2002 E Bonds maturing on February 1, 2005, through and including February 1, 2006, maturing on February 1, 2008, maturing on February 1, 2010, through and including February 1, 2013, maturing on February 1, 2017, and maturing on February 1, 2023 (collectively, the "Discount Bonds"), is less than the principal amount payable at maturity. As a result, the Discount Bonds will be considered to be issued with original issue discount. The difference between the initial public offering price of the Discount Bonds, as set forth on the inside front cover of this Official Statement (assuming it is the first price at which a substantial amount of that maturity is sold) (the "Issue Price" for such maturity), and the amount payable at maturity of the Discount Bonds, will be treated as "original issue discount." The original issue discount on each of the Discount Bonds is treated as accruing daily over the term of such Discount Bond on the basis of the yield to maturity determined on the basis of compounding at the end of each six-month period (or shorter period from the date of the original issue) ending on February 1 and August 1 (with straight line interpolation between compounding dates). An owner who purchases a Discount Bond in the initial public offering at the Issue Price for such maturity will treat the accrued amount of original issue discount as interest which is excludable from the gross income of the owner of that Discount Bond for federal income tax purposes.

Section 1288 of the Code provides, with respect to tax-exempt obligations such as the Discount Bonds, that the amount of original issue discount accruing each period will be added to the owner's tax basis for the Discount Bonds. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Discount Bonds (including sale, redemption or payment at maturity). Owners of Discount Bonds who dispose of Discount Bonds prior to maturity should consult their tax advisors concerning the amount of original issue discount accrued over the period held and the amount of taxable gain or loss upon the sale or other disposition of such Discount Bonds prior to maturity.

The original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. Owners of any Discount Bonds should be aware that the accrual of original issue discount in each year may result in a tax liability from these collateral tax consequences even though the owners of such Discount Bonds will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the Issue Price for such maturity should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of subsequent purchasers of bonds such as the Discount Bonds. Owners who do not purchase Discount Bonds in the initial offering should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

Owners of Discount Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning the Discount Bonds. It is possible under the applicable provisions governing the determination of state or local income taxes that accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment until a later year.

AMORTIZABLE BOND PREMIUM

The initial offering price of the Series 2002 E Bonds maturing on February 1, 2018, through and including February 1, 2020 (collectively, the "Premium Bonds"), is greater than the principal amount payable at maturity. As a result, the Premium Bonds will be considered to be issued with amortizable bond premium (the "Bond Premium"). An owner who acquires a Premium Bond in the initial offering will be required to adjust the owner's basis in the Premium Bond downward as a result of the amortization of the Bond Premium, pursuant to Section 1016(a)(5) of the Code. Such adjusted tax basis will be used to determine taxable gain or loss upon the disposition of the Premium Bonds (including sale, redemption or payment at maturity). The amount of amortizable Bond Premium will be computed on the basis of the taxpayer's yield to maturity, with compounding at the end of each accrual period. Rules for determining (i) the amount of amortizable Bond Premium and (ii) the amount amortizable in a particular year are set forth at Section 171(b) of the Code. No income tax deduction for the amount of Bond Premium will be allowed pursuant to Section 171(a)(2) of the Code, but amortization of Bond Premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining other tax consequences of owning the Premium Bonds. Owners of the Premium Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon the sale or other disposition of such Premium Bonds and with respect to the state and local tax consequences of owning and disposing of the Premium Bonds.

Special rules governing the treatment of Bond Premium, which are applicable to dealers in tax-exempt securities, are found at Section 75 of the Code. Dealers in tax-exempt securities are urged to consult their own tax advisors concerning the treatment of Bond Premium.

ENFORCEABILITY OF REMEDIES

The remedies available to the Trustee or the holders of the Series 2002 E Bonds upon a default under the Indenture, to the Trustee or the Bond Bank under the Series 2002 E Qualified Obligations, the purchase agreements for the Series 2002 E Qualified Obligations and the Authorizing Instruments, or to any party seeking to enforce the pledges securing the Series 2002 E Bonds or the Series 2002 E Qualified Obligations described herein (collectively the "Pledges"), are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the United States Bankruptcy Code), the remedies provided (or which may be provided) in the Indenture, the purchase agreements for the Series 2002 E Qualified Obligations, the Series 2002 E Qualified Obligations and the Authorizing Instruments, or to any party seeking to enforce the Pledges, may not be readily available or may be limited. Under Federal and State environmental laws, certain liens may be imposed on property of the Bond Bank or the Qualified Entities from time to time, but the Bond Bank has no reason to believe, under existing law, that any such lien would have priority over the lien on the Qualified Obligation Payments pledged to owners of the Series 2002 E Bonds under the Indenture or over the liens pledged to the owner of the Series 2002 E Qualified Obligations under the Authorizing Instruments.

The various legal opinions to be delivered concurrently with the delivery of the Series 2002 E Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally, by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law) and by public policy. These exceptions would encompass any exercise of the Federal, State or local police powers in a manner consistent with the public health and welfare. Enforceability of the Indenture, the purchase agreements for the Series 2002 E Qualified Obligations, the Authorizing Instruments and the Pledges in a situation where such enforcement may adversely affect public health and welfare may be subject to these police powers.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the authorization, issuance, sale and delivery of the Series 2002 E Bonds are subject to the approval of Barnes & Thornburg, Indianapolis, Indiana, Bond Counsel, whose approving legal opinion will be delivered with the Series 2002 E Bonds, substantially in the form attached hereto as Appendix C. Certain legal matters will be passed on by Issuer's Counsel, Hall, Render, Killian, Heath & Lyman, P.S.C., Indianapolis, Indiana, and Bose McKinney & Evans LLP, Indianapolis, Indiana, counsel for the Underwriters.

RATING

S&P has assigned a rating of "AAA" to the Series 2002 E Bonds. Such rating is conditional upon the issuance of the Series 2002 E Bond Insurance Policy. This rating reflects only the view of S&P and an explanation thereof may be obtained from S&P at 55 Water Street, New York, New York 10041. Such rating is not a recommendation to buy, sell or hold the Series 2002 E Bonds. There is no assurance that such rating will remain in effect for any given period of time or that such rating will not be lowered or withdrawn entirely by S&P if, in its judgment, circumstances so warrant. The Underwriters have undertaken no responsibility either to bring to the attention of the owners of the Series 2002 E Bonds any proposed revision or withdrawal of the rating of the Series 2002 E Bonds or to oppose any such proposed revision or withdrawal. Any such downward revision or withdrawal of rating may have an adverse effect on the market price or marketability of the Series 2002 E Bonds.

UNDERWRITING

The Series 2002 E Bonds are being purchased by the Underwriters set forth on the cover page of this Official Statement. The Underwriters have agreed to purchase the Series 2002 E Bonds at an aggregate purchase price of $10,088,460.38, which represents the par amount of $10,155,000.00, plus net original issue premium of $46,501.55, less the underwriters' discount of $76,162.50, bond insurance and credit facility premium of $49,895.57, plus accrued interest of $13,016.90 on the Series 2002 E Bonds, pursuant to a purchase contract entered into by and between the Bond Bank and the Underwriters. Such purchase contract provides that the Underwriters will purchase all of the Series 2002 E Bonds if any are purchased.

The Underwriters have agreed to make a bona fide public offering of all of the Series 2002 E Bonds at prices not in excess of the initial public offering prices set forth or reflected inside the cover page of this Official Statement. The Underwriters may sell the Series 2002 E Bonds to certain dealers (including dealers depositing Series 2002 E Bonds into investment trusts) and others at prices lower than the offering prices set forth inside the cover page hereof.

VERIFICATION OF MATHEMATICAL CALCULATIONS

The accuracy of certain mathematical computations showing that payments on the Qualified Obligations, together with other available revenues, have been structured to be sufficient to pay principal of and interest on the Series 2002 E Bonds when due will be verified by Crowe, Chizek and Company LLP, independent certified public accountants. Such verifications shall be based upon certain information and assumptions supplied by the Bond Bank and the Underwriters.

SERIES 2002 E BONDS AS LEGAL INVESTMENTS

Pursuant to the Act, all Indiana financial institutions, investment companies, insurance companies, insurance associations, executors, administrators, guardians, trustees, and other fiduciaries may legally invest sinking funds, money, or other funds belonging to them or within their control in bonds or notes issued by the Bond Bank.

AVAILABILITY OF DOCUMENTS AND FINANCIAL INFORMATION

Separate audited financial reports of the State and the Bond Bank, respectively, (collectively, the "Financial Reports") are prepared annually and are presently available for the year ended June 30, 2001, and prior years. No financial reports related to the foregoing entities are prepared on an interim basis and there can be no assurance that there have not been material changes in the financial position of the foregoing entities since the date of the most recent available Financial Statements. Upon request and receipt of payment for reasonable copying, mailing and handling charges, the Bond Bank will make available copies of the most recent Financial Reports, any authorizing or governing instruments defining the rights of owners of the Series 2002 E Bonds or the owners of the Qualified Obligations and available financial and statistical information regarding the Bond Bank and the Qualified Entities. Requests for documents and payments therefor should be directed and payable to the Indiana Bond Bank, 2980 Market Tower, 10 West Market Street, Indianapolis, Indiana 46204.

CONTINUING DISCLOSURE

Pursuant to disclosure requirements set forth in Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC"), and the terms of the Continuing Disclosure Undertaking Agreement (the "Undertaking"), among the State, the Bond Bank and the Trustee, the State will agree to provide or cause to be provided through the Trustee or the Bond Bank, as dissemination agent, the following annual financial information and operating data, as long as the State is an "obligated person" (within the meaning of the Rule) with respect to the Bonds (or until such time as the Bonds may be defeased or paid in full, all as more fully set forth in the Undertaking):

1. <u>Audited Financial Statements</u>. To each nationally recognized municipal securities information repository ("NRMSIR") and to the Indiana state information depository, if any (the "State Depository"), when and if available, the audited financial statements of the State for each fiscal year of the State, beginning with the fiscal year ended June 30, 2002, together with the independent auditor's report and all notes thereto; if audited financial statements are not available within 220 days following the close of the fiscal year of the State, beginning with the fiscal year ended June 30, 2002, the Annual Information (as defined below) shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Information when they become available; and

2. <u>Financial Information in this Official Statement</u>. To each NRMSIR and to the State Depository, if any, within 220 days of the close of the fiscal year of the State, beginning with the fiscal year ended June 30, 2002, annual financial information, other than the audited or

unaudited financial statements described above, including operating data of the type provided in Appendix A – "FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA AND SUPPLEMENT THERETO."

(The information described in items 1 and 2 above is referred to as the "Annual Information.")

Pursuant to the terms of the Undertaking, the Bond Bank (and the State, but only to the extent the State shall have actual knowledge of such event) will also agree to provide to each NRMSIR or to the Municipal Securities Rulemaking Board (the "MSRB"), and to the State Depository, if any, the following event notices, if material, and in a timely manner:

- principal and interest payment delinquencies;
- non-payment related defaults;
- unscheduled draws on debt service reserves reflecting financial difficulties;
- unscheduled draws on credit enhancements reflecting financial difficulties;
- substitution of credit or liquidity providers, or their failure to perform;
- adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- modifications to the rights of Bondholders;
- Bond calls (other than scheduled mandatory sinking fund redemptions for which notice is given in accordance with the Indenture and as described in the Final Official Statement);
- defeasances;
- release, substitution or sale of property securing repayment of the Bonds; and
- rating changes.

The State or the Bond Bank may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above.

White River Township of Hamilton County, the Town of Pittsboro and the City of Loogootee, while the Bonds are outstanding, have agreed to provide to the Bond Bank the preceding event notices with regard to the Series 2002 E Qualified Obligations, with respect to which they are obligated persons, if material, and in a timely manner, and each has agreed to provide the following information while any Series 2002 E Qualified Obligations, with regard to which they are obligated persons, are outstanding:

An update of the financial information and operating data relating to such entities of the same nature as that contained in Appendix B to each NRMSIR, to the State Depository, if any, and to the Bond Bank, within 180 days after each December 31, commencing with the calendar year ending December 31, 2002.

Audited Financial Statements. To each NRMSIR, to the State Depository, if any, and to the Bond Bank, when and if available, the audited financial statements of such entities as prepared and examined by the State Board of Accounts for each twelve (12) month period ending December 31, commencing with the year ending December 31, 2002, together with the opinion of such accountants and all notes thereto, within sixty (60) days of receipt of such statements from the State Board of Accounts.

Failure to Disclose

In a timely manner, the Trustee shall notify each NRMSIR or the MSRB, and the State Depository, if any, of any failure on the part of the State to provide the Annual Information. If any information relating to the State can no longer be provided because the operations to which they related have been materially changed or discontinued, a statement to that effect, provided by the State to each NRMSIR and to the State Depository, if any, along with the Annual Information required as specified above and containing such information as is still available, will satisfy the State's undertaking to provide the Annual Information. To the extent available, the State will cause to be filed along with the Annual Information operating data similar to that which can no longer be provided.

Accounting Principles

The accounting principles pursuant to which the financial statements of the State will be prepared will be generally accepted accounting principles, as in effect from time to time or those mandated by State law from time to time.

Remedies

The Undertaking is solely for the benefit of the holders and beneficial owners of the Bonds and creates no new contractual or other rights for the SEC, any underwriters (other than the Underwriters), brokers, dealers, municipal securities dealers, potential customers, or other obligated persons or any other third party. The sole remedy against the State for any failure to carry out any provision of the Undertaking shall be for specific performance of the State's disclosure obligations under the Undertaking. Failure on the part of the State to honor its covenants thereunder shall not constitute a breach or default of the Bonds, the Indenture or any other agreement to which the State or the Bond Bank. This remedy may be exercised by any holder or beneficial owner of the Bonds who may seek specific performance by court order to cause the State to comply with its disclosure obligations under the Undertaking.

Modification of Undertaking

The Bond Bank, State and the Trustee may, from time to time, amend or modify any provision of the Undertaking without the consent of the holders or the beneficial owners of the Bonds if either: (a)(i) such amendment or modification is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Bond Bank or the State, or type of business conducted, (ii) the Undertaking, as so amended or modified, would have complied with the requirements of the Rule on the date of the Undertaking, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (iii) such amendment or modification does not materially impair the interest of the holders or beneficial owners of the Bonds, as determined either by (A) any person selected by the State that is unaffiliated with the State (including the Trustee) or (B) an approving vote of the holders of the requisite percentage of Outstanding Bonds as required under the Indenture at the time of such amendment or modification; or (b) such amendment or waiver (including an amendment which rescinds the Undertaking) is permitted by law or the Rule, as then in effect.

The Annual Information for the fiscal year during which any such amendment or modification occurs that contains the amended or modified Annual Information will explain, in narrative form, the reasons for such amendment or waiver and the impact of the change in the type of Annual Information being provided.

Copies of the Undertaking are available from the Bond Bank upon request.

Compliance with Previous Undertakings

In the previous five years, the Bond Bank, the State, White River Township of Hamilton County, the Town of Pittsboro and the City of Loogootee have never failed to comply in all material respects with any previous undertakings in a written contract or agreement that any of them entered into pursuant to subsection (b)(5) of the Rule.

MISCELLANEOUS

The references, excerpts, and summaries of all documents referred to herein do not purport to be complete statements of the provisions of such documents, and reference is made to all such documents for full and complete statements of all matters of fact relating to the Series 2002 E Bonds, the security for the payment of the Series 2002 E Bonds and the rights of the owners thereof. During the period of the offering, copies of drafts of such documents may be examined at the offices of the Underwriters. Following delivery of the Series 2002 E Bonds, copies of such documents may be examined at the offices of the Bond Bank.

The information contained in this Official Statement has been compiled from official and other sources deemed to be reliable, and while not guaranteed as to completeness or accuracy, is believed to be correct as of this date.

Any statements made in this Official Statement involving matters of opinions or estimates, whether or not expressly so stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the information presented herein since the date hereof. This Official Statement is submitted in connection with the issuance and sale of the Series 2002 E Bonds and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract or agreement among the Bond Bank, the Qualified Entities, the Trustee or the Underwriters and the purchasers or owners of any Series 2002 E Bonds. The delivery of this Official Statement has been duly authorized by the Board of Directors of the Bond Bank.

INDIANA BOND BANK

By: /s/ Tim Berry________________________
Tim Berry, Chairman, Ex Officio

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APPENDIX A

FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA

AND

SUPPLEMENT THERETO

APPENDIX A

FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA

TABLE OF CONTENTS

I. INTRODUCTION

This Financial and Economic Statement (the "Statement") for the State of Indiana (the "State") includes a discussion of the State's economic and fiscal condition, the results of operations for the past five years and revenue and expenditure projections through the end of the biennium ending June 30, 2003. The information has been compiled on behalf of the State by the Indiana State Budget Agency and the Public Finance Office and includes information and data taken from the Agency's unaudited year-end budget reports. It also includes information obtained from other sources the State believes to be reliable. Information included in the section titled "Litigation" has been furnished by the office of the State Attorney General.

The State expects to update the entire Statement at least annually after the close of each Fiscal Year (as defined herein). The status of this Statement or any updates or supplements may be obtained by contacting the Indiana State Budget Agency, Room 212, State House, Indianapolis, IN 46204, Tel: (317) 232-5610. This Statement should be read in its entirety together with any updates or supplements.

The General Purpose Financial Statements of the State of Indiana for the Fiscal Year Ended June 30, 2001 are Exhibit A-1 to this Appendix A.

II. STRUCTURE OF STATE GOVERNMENT

Division of Powers

The State constitution divides the powers of the State's government into three separate departments: the executive (including the administrative), the legislative and the judicial. Under the State constitution, no person in any one department may exercise any function of another department unless expressly authorized to do so by the constitution.

Executive Department

The executive department of the State is comprised of the Governor, Lieutenant Governor, Secretary of State, State Auditor, State Treasurer, Attorney General, Superintendent of Public Instruction and Clerk of the Supreme Court and Court of Appeals. All are elected for four-year terms, with the terms of the Lieutenant Governor, Attorney General and Superintendent of Public Instruction coinciding with that of the Governor.

The State constitution requires the Governor to "take care that the laws are faithfully executed." The Governor may recommend legislation to the General Assembly of the State (the "General Assembly") may call special sessions of the General Assembly and may veto any bill passed by the General Assembly (although such veto may be overridden if the bill is re-passed by a majority of *all* the members elected to each house of the General Assembly). There are approximately 400 boards and agencies that are responsible to the Governor. If the Governor vacates the office or is unable to discharge the Governor's duties, the Lieutenant Governor discharges the powers and duties as Acting Governor until the next general election.

The Lieutenant Governor serves as the President of the State Senate and casts the deciding vote whenever the Senate is equally divided. The Lieutenant Governor also serves as director of the State Department of Commerce, the Commissioner of Agriculture, the chairman of the Indiana Housing Finance Authority, the secretary manager of the Indiana Development Finance Authority and a member of the Indiana State Office Building Commission.

The Secretary of State attests official State documents issued by the Governor, maintains records of elections and administers State laws regulating the sale and trading of securities and corporate and Uniform Commercial Code filings.

The State Treasurer is responsible for holding and investing all State revenues and disburses money upon warrants issued by the State Auditor. The State Treasurer is a member of the State Board of Finance, Indiana Transportation Finance Authority, Indiana Housing Finance Authority, Indiana Development Finance Authority and State Office Building Commission. The State Treasurer is Secretary-Investment Manager of the State Board for Depositories and chairs the Indiana Bond Bank and Indiana Education Savings Authority.

The State Auditor maintains the State's centralized financial accounting system for all State agencies. Responsibilities include accounting for receipts and disbursements of the State, as well as issuing payroll for most State employees. The State Auditor is required by statute to prepare and publish annual statements of State funds, outlining receipts and disbursements of each State department and agency. The State Auditor is a member of the State Board of Finance, State Office Building Commission, State Board for Depositories and Information Technology Oversight Commission.

The Attorney General is the chief legal officer of the State and is required to represent the State in every lawsuit in which the State is a party. The Attorney General, upon request, gives legal opinions regarding particular statutes to the Governor, members of the General Assembly and officers of the State.

The Superintendent of Public Instruction chairs the State Board of Education, which establishes policies and directives for implementation by the Indiana Department of Education. The Superintendent of Public Instruction oversees the Department of Education.

The Clerk of the Supreme Court and Court of Appeals performs the clerical and administrative duties required by the two highest courts of the State.

Legislative Department

The legislative authority of the State is vested in the General Assembly, which is comprised of the House of Representatives and the Senate. The House of Representatives consists of 100 members who are elected for two-year terms beginning in odd-numbered years. The Senate consists of 50 members who are elected for four-year terms, with one-half of the Senate elected biennially. The Speaker presides over the House of Representatives. The members of the House of Representative select the Speaker from among the ranks of the House. The Lieutenant Governor is President of the Senate.

By law, the term of each General Assembly extends for two years, beginning in November of each even-numbered calendar year. The first regular session of every General Assembly occurs in the following odd-numbered year, convening not later than the second Monday in January and adjourning not later than April 29. The second regular session occurs in the following year, convening not later than the second Monday in January and adjourning not later than March 14.

Pursuant to the State constitution, special sessions of the General Assembly may be convened by the Governor at any time if, in the Governor's opinion, "the public welfare shall require." By statute, a special session of the General Assembly may not exceed 30 session days during a 40-calendar-day period. The Governor cannot limit the subject of any special session or its scope.

Judicial Department

The State constitution provides that the "judicial power of the State shall be vested in one Supreme Court, one Court of Appeals, Circuit Courts, and such other courts as the General Assembly may establish."

The Judicial Nominating Commission (comprised of the Chief Justice or his appointee, three attorneys elected by the attorneys of Indiana and three non-attorney citizens appointed by the Governor) evaluates the qualifications of potential candidates for vacant seats on the Supreme Court and Court of Appeals. When a vacancy occurs in either court, the Judicial Nominating Commission submits the names of three nominees and the Governor selects one of the three. If the Governor fails to choose among the nominees within 60 days, the Chief Justice is required to make the appointment.

The initial term of each newly appointed justice and judge is two years, after which the justice or judge is subject to a "yes" or "no" referendum at the time of the next general election. For justices of the Supreme Court, the entire State electorate votes on the question of approval or rejection. For Court of Appeals judges, the referendum is by district. Those justices and judges receiving an affirmative vote from the voting public serve a ten-year term, after which they are again subject to referendum. Justices and judges are prohibited from taking part in political campaigns and must retire by age 75.

III. FISCAL POLICIES

Fiscal Years

The State's Fiscal Year is the 12-month period beginning on July 1 of each calendar year and ending on June 30 of the succeeding calendar year (a "Fiscal Year").

Accounting System

The State maintains a central accounting system that processes all payments for State agencies and institutions with the exception of State colleges and universities. The State Auditor is responsible for the pre-audit of all payments, the issuance of all State warrants and the maintenance of the State-wide accounting system.

Budgetary control is fully integrated into the accounting system. Legislative appropriations are entered into the system as an overall spending limit by account for each agency within each fund, but appropriations are not available for expenditure until allotted by the Budget Agency. Allotments authorize an agency to spend a portion of its appropriation. The Budget Agency makes quarterly allotments.

The accounting system is maintained using the cash basis of accounting. At year-end, accruals are recognized as necessary to convert from the cash basis to the modified accrual basis of accounting in accordance with generally accepted accounting principles for financial reporting purposes. The general purpose financial statements of the State for the Fiscal Year ended June 30, 2001, together with the independent auditors' report thereon, are included in the General Purpose Financial Statements of the State of Indiana for the Fiscal Year Ended June 30, 2001, attached hereto as Exhibit A-1.

Fund Structure

Funds are used to record the activities of State government. There are three major fund types: Governmental, Proprietary and Fiduciary.

Governmental Funds

Governmental Funds are used to account for the State's general governmental activities and use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is, when they are "measurable and available"). Expenditures are recorded when the related fund liability is incurred, except that (i) unmatured interest on general long-term debt is recognized when due and (ii) certain compensated absences and related liabilities and claims and judgments are recognized when the obligations are expected to be liquidated. Governmental Funds include the following fund types:

The General Fund is maintained to account for resources obtained and used for those services traditionally provided by State government that are not required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. There are several Special Revenue Funds including, for instance, the Motor Vehicle Highway Fund, which receives revenues from gasoline taxes and motor vehicle registrations and operator licensing fees and distributes those revenues among the State and its counties, cities and towns to be used for the construction, reconstruction, improvement, maintenance and policing of highways and secondary roads.

The Property Tax Replacement Fund ("PTRF" or "PTR Fund") is also reported as a Special Revenue Fund by the State Auditor. The PTRF is funded from 40% of State sales and use tax revenues and a portion of corporate adjusted gross income tax receipts. The Property Tax Replacement Fund is used to provide (i) property tax relief and (ii) local school aid. Although reported as a special revenue fund, it is helpful to combine the receipts and disbursements of the PTRF with those of the General Fund, so as to provide the most complete and accurate description possible of State receipts and discretionary expenditures, especially as those expenditures relate to local school aid. For that reason, the General Fund and PTRF are sometimes discussed in this Appendix A as a single, combined fund. See "FINANCIAL RESULTS OF OPERATIONS—Fund Balances—Combined General and PTR Fund."

Debt Service Funds are used to account for the accumulation of resources and payment of bond principal and interest from special revenue component units that are both corporate and politic and have the legal authority to issue bonds to finance certain improvements within the State.

Capital Projects Funds are used to account for financial resources to be used by the State for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). Capital Projects Funds include the Post War Construction Fund, Build Indiana Fund, Soldiers and Sailors Children's Home Fund, Veterans Home Fund, State Police Building Commission Fund, Law Enforcement Academy Building Fund, Interstate Bridge Fund and Major Construction-Indiana Army National Guard Fund.

Proprietary Funds

Proprietary Funds use the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred. Proprietary Funds include the following fund types:

Enterprise Funds are used to account for operations established to provide services to the general public in a manner similar to private business enterprises. Cost of providing the goods or services are financed or recovered primarily through user charges. Enterprise Funds include the Inns and Concessions Fund, Toll Bridges Fund, Toll Roads Fund, State Lottery Commission Fund, Malpractice Insurance Authority Fund and Political Subdivision Insurance Fund.

Internal Service Funds are used to account for the operations of State agencies that render goods or services to other agencies or governmental units on a cost-reimbursement basis. Internal Service Funds include the Institutional Industries Fund, Administration Services Rotary Fund, State Office Building Commission Fund, Recreational Development Commission Fund and Self-Insurance Funds.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governmental units and other funds, and they are broken down into four broad categories:

Expendable Trust Funds. The State maintains various Expendable Trust Funds to account for resources the State holds as a trustee. The principal and earnings on this fund type may be used for purposes designated by trust agreement. Expendable Trust Funds include the Unemployment Funds and Health Insuring Organization Funds.

Non-Expendable Trust Funds. The State maintains a limited number of Non-Expendable Trust Funds to account for resources the State holds as a trustee. The principal must be preserved and only the earnings may be used for purposes designated by trust agreement. The most significant Non-Expendable Trust Fund is the Common School Fund. The Common School Fund was established by the State constitution and is comprised of fines, forfeitures and escheated estates. Interest on the Common School Fund may only be used to aid local schools.

Pension Trust Funds. The State maintains pension funds for State and local officers and employees and accounts for each type of pension in a separate fund. Such funds are accounted for in the same way as Proprietary Funds. See "STATE RETIREMENT SYSTEMS."

Agency Funds account for resources that are custodial in nature. Agency Funds generally include amounts held by the State on behalf of third parties. Agency Funds include the Deferred Compensation Fund, Institutional Funds, Department of Insurance Fund and State Police Employee Insurance Fund.

Account Groups

In addition to the fund types described above, the General Fixed Assets Account Group is maintained to account for fixed assets acquired or constructed for use by the State for general governmental purposes, including all fixed assets except those accounted for in Proprietary and Pension Trust Funds. Public domain fixed assets, including highways, curbs, lighting systems, highway land and rights-of-way, are not included.

The General Long-Term Debt Account Group is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.

Budget Process

The State Budget Agency is responsible for preparing the State budget. After the State budget is enacted, the Budget Agency has extensive statutory authority to administer it. The chief executive officer of the Budget Agency is the State Budget Director, who is appointed by the Governor. The Governor also appoints two Deputy Budget Directors; by law, the deputies must be of different political parties.

Budget Committee. The State Budget Committee consists of the State Budget Director and four senior State legislators. The Committee oversees the preparation of the budget and its administration after enactment. The legislative members of the Committee consist of two members of the Senate, appointed by the President *pro tempore*, and two members of the House of Representatives, appointed by the Speaker. One of the two appointees from each house must be nominated by the minority floor leader. Four alternate members of the Budget Committee must be legislators selected in the same manner as regular members. An alternate member participates and has the same privileges as a regular member, except that an alternate member votes only if the regular member from the alternate member's respective house and political party is not present. The legislators serve as liaisons between the executive and legislative departments and provide fiscal information to their respective caucuses. By statute, the Budget Committee is required to meet at least once during the two-month period after the adjournment of each regular session of the General Assembly and, beginning in July, at least once each month and upon call of the chair.

Budget Development. The State's budget process is set out in statute. The State operates under a biennial budget. On or before the first day of September in each even-numbered year, all State agencies, including State-supported higher education institutions and public employee and teacher pension fund trustees, submit budget requests to the Budget Agency. The Budget Agency then conducts an internal review of each request.

In September of each even-numbered year, the Budget Committee begins hearings on each budget request. After presentations by the agencies and the Budget Agency, the Budget Committee makes budget recommendations to the Governor. The Budget Committee's recommendations are tentative, pending review of revenue projections for the next biennium, which typically are available late in the second quarter of the Fiscal Year.

Revenue Projections. Revenue projections are prepared by the Indiana Economic Forecast Committee and the Technical Forecast Committee. The Economic Forecast Committee is responsible for forecasting independent variables that are employed by the Technical Forecast Committee to derive the State's revenue projections. The Economic Forecast Committee is currently comprised of five economists within the State and a special adviser associated with the Federal Reserve Bank of Chicago, all of whom serve at the request of the Governor and without pay. Members of the Economic Forecast Committee have detailed knowledge of the State and national economies, the banking community and the Federal Reserve System and have access to a national econometric model.

The Technical Forecast Committee is responsible for developing econometric models used to derive the State's revenue projections and for monitoring changes in State and federal laws that may have an impact on State revenues. Each regular member of the Budget Committee appoints a member of the Technical Forecast Committee and jointly appoint one individual from a higher education institution. Members of the Technical Forecast Committee are individuals with expertise in public finance.

No formal contact occurs between the Economic Forecast Committee and the Technical Forecast Committee until the chair of each group reports to the Budget Committee. However, the Economic Forecast Committee does provide the economic assumptions used by the Technical Forecast Committee in preparing the State's revenue projections. The report presented by the Technical Forecast Committee is a consensus forecast in which Democratic and Republican legislators and the executive and legislative departments are involved.

Budget Report. The budget report and budget bill are prepared by the Budget Committee with the Budget Agency's assistance. The budget report and bills are based upon the recommendations and estimates prepared by the Budget Agency and the information obtained through the hearings and other inquiries. In the event the Budget Agency and a majority of the members of the Budget Committee differ upon any item, matter or amount to be included in the budget report and bills, the recommendation of the Budget Agency is included in the budget bills. The particular item, matter or amount, and the extent of and reasons for the differences between the Budget Agency and the Budget Committee, must be stated fully in the budget report.

Before the second Monday of January in the year immediately after their preparation, the Budget Committee submits the budget report and bill to the Governor. The Governor then delivers such budget bills to the Budget Committee members appointed by the Speaker of the House of Representatives for introduction in the House. Although there is no law that requires a budget bill to originate in the House, by tradition, the House passes budget bills first and sends them to the Senate for consideration.

The budget report includes at least these five parts: (a) a statement of policy, (b) a general summary, (c) detailed data on actual receipts and expenditures for the previous budget period, (d) a description of the capital improvement program for the State and (e) the budget bill.

Appropriations

Appropriations. Within 45 days following the adjournment of each regular session of the General Assembly or within 60 days following a special session of the General Assembly, the Budget Agency is required to prepare a list of all appropriations made for the budget period beginning on July 1 following such session, or for such other period as may be provided in the appropriation. The State Budget Director is required to prepare a written review and analysis of the fiscal status and affairs of the State as affected by the appropriations. The report is forwarded to the Governor, the State Auditor and each member of the General Assembly.

On or before the first day of June of each calendar year, the Budget Agency is required to prepare a list of all appropriations made for expenditure or encumbrance during the next Fiscal Year. The State Auditor then establishes the necessary accounts based upon the list.

Transfers. The Budget Agency is responsible for administering the State budget after it is enacted. The Budget Agency may transfer, assign or reassign all or any part of any appropriation made to any agency for one specific use or purpose to another use or purpose, except any appropriation made to the Indiana State Teachers' Retirement Fund. The Budget Agency may take such action only if the transfer, assignment or reassignment is to meet a use or purpose that an agency is required or authorized by law to perform. The agency whose appropriation is involved must approve the transfer, assignment or reassignment.

Contingency Appropriations. The General Assembly may also make "contingency appropriations" to the Budget Agency. Contingency appropriations are general and unrelated to any specific State agency. In the absence of other directions imposed by the General Assembly, contingency appropriations must be for the general use of any agency of the State and must be for its contingency purposes or needs, as the Budget Agency in each situation determines. The Budget Agency fixes the amount of each transfer and orders the transfer from such appropriations to the agency. By law, the Budget Agency may make and order allocations and transfers to, and authorize expenditures by, the various State agencies to achieve the purposes of such agencies or to meet the following:

1. necessary expenditures for the preservation of public health and for the protection of persons and property that were not foreseen when appropriations were last made;

2. repair of damage to, or replacement of, any building or equipment owned by the State which has been so damaged so as to materially affect the public safety or utility thereof, or which has so deteriorated as to become unusable if such deterioration was not foreseen when appropriations were last made;

3. emergencies resulting from an increase in costs or any other factor or event that was not foreseen when appropriations were last made, or

4. without limiting the foregoing, supplementation of an exhausted fund or account of any State agency, whatsoever the cause of such exhaustion, if such is found necessary to accomplish the orderly administration of the agency, or the accomplishment of an existing specific State project. (No such funds

may authorize a purpose that was included in the budget bills to the previous General Assembly but was wholly omitted by the General Assembly.)

These provisions may not change, impair or destroy any fund previously created nor affect the administration of any contingency appropriations previously or subsequently made for specific purposes.

State Board of Finance

The State Board of Finance (the "Board") consists of the Governor, the State Treasurer and the State Auditor. The Board elects from its membership a president, who by tradition is the Governor. By law, the State Auditor is the secretary of the Board. The Board is responsible for supervising the fiscal affairs of the State and has advisory supervision of the safekeeping of all funds coming into the State treasury and all other funds belonging to the State coming into the possession of any State agency or officer. The Board may transfer money between State funds, except trust funds, and the Board may transfer money between appropriations for any State board, department, commission, office or benevolent or penal institution.

The Board has statutory authority to negotiate loans on behalf of the State for the purpose of meeting "casual deficits" in State revenues. A loan may not be for a period longer than four years after the end of the Fiscal Year in which it is made. If sufficient revenues are not being received by the General Fund to repay the loan when due, the Board may levy a tax on all taxable property in the State sufficient to pay the amount of the indebtedness. The Board has never exercised its authority to levy a tax.

Rainy Day Fund

In 1982, the General Assembly adopted Indiana Code 4-10-18, which established the Counter-Cyclical Revenue and Economic Stabilization Fund, which is commonly called the "Rainy Day Fund." The Rainy Day Fund was established to permit the State to collect and maintain substantial general purpose tax revenues during periods of economic expansion for use during periods of economic recession. In effect, the Rainy Day Fund is a statutorily required State savings account.

Each year the State Budget Director determines calendar year Adjusted Personal Income ("API") for the State and its growth rate over the previous year. API is determined by dividing the calendar year State personal income (excluding transfer payments made in the State) by the implicit price deflator for the Fiscal Year ending in the aforementioned calendar year; the result is multiplied by 100. The annual growth rate in API for a particular calendar year is calculated by dividing the difference between API for such year and API for the immediately preceding calendar year by the amount of API for the immediately preceding calendar year. This change in API is the sole factor in determining whether General Fund revenues are transferred to the Rainy Day Fund or whether moneys in the Rainy Day Fund revert to the General Fund. In general, moneys are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2.0%; moneys are removed automatically from the Rainy Day Fund if API declines by more than 2.0%.

By law, "automatic" appropriations to and from the General Fund are determined as follows:

1. If the growth rate of API for the calendar year immediately preceding the current calendar year is greater than 2.0%, an amount is appropriated from the General Fund for the Fiscal Year beginning in the current calendar year which equals the total General Fund revenues for the Fiscal Year ending in the current calendar year, multiplied by the growth rate in API less two percentage points.

2. If API declines by more than 2.0% for the calendar year immediately preceding the current calendar year, the amount appropriated to the General Fund for the Fiscal Year beginning in the current calendar year equals total General Fund revenues for the Fiscal Year ending in the current calendar year, multiplied by the decline in API less two percentage points.

During a Fiscal Year when a transfer is made to the Rainy Day Fund, if General Fund revenues are less than estimated (and the shortfall cannot be attributed to a statutory change in the tax rate, tax base, fee schedules or revenue sources from which the revenue estimates were made), an amount reverts to the General Fund from the Rainy Day Fund equal to the lesser of (a) the amount initially transferred to the Rainy Day Fund during the Fiscal

Year and (b) the amount necessary to balance the General Fund budget for the Fiscal Year.

All earnings from the investment of the Rainy Day Fund balance remain in the Rainy Day Fund. Moneys in the Rainy Day Fund at the end of the Fiscal Year do not revert to the General Fund. If the balance in the Rainy Day Fund at the end of the Fiscal Year exceeds 7.0% of total General Fund revenues for the Fiscal Year, the excess is transferred from the Rainy Day Fund into the PTRF.

The 2001 General Assembly enacted a number of special provisions designed to help balance the budget for the 2001-2003biennium. Two such provisions involve possible transfers from the Rainy Day Fund to the General Fund. For a detailed explanation of these transfers and their impact on the 2001-2003biennial budget, see "FINANCIAL RESULTS OF OPERATIONS—Fund Balances—Rainy Day Fund" and Table 3 for further discussion of Rainy Day Fund balances and transfers.

Cash Management and Investments

The State Treasurer is responsible for the receipt, custody and deposit of all moneys paid into the State Treasury and keeps daily accounts of all funds received into the Treasury and all moneys paid out of it. The State Treasurer is responsible for investing the General Fund, PTRF, Rainy Day Fund and more than 60 other funds.

<u>Allowable investments.</u> Repurchase agreements are used for short-term cash management purposes and must be fully collateralized by certain obligations of the United States government or its agencies (determined on the basis of current market value). The majority of investments are obligations backed by the full faith and credit of the United States and certificates of deposit in Indiana financial institutions; however, the State Treasurer is also authorized to invest in obligations issued by agencies and instrumentalities of the United States. Rates on certificates of deposit are established by prevailing market conditions. Deposits are subject to coverage by the Indiana Public Deposit Insurance Fund in the event of depository closure; provided that the deposits were invested according to the investment requirements of Indiana Code 5-13.Pursuant to State statute, the Treasurer may invest no more than 25% of the State's portfolio in securities with a final maturity exceeding five years. The remainder of the portfolio may not have final maturities exceeding two years.

Audits

The State Board of Accounts was created by the General Assembly in 1909 as a separate State agency, with the responsibility and authority to (a) audit all State and local units of government and (b) approve uniform systems of accounting for such governments.

The State Board of Accounts performs its financial and compliance audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. The State Board of Accounts issues its opinion on the fairness of financial statements and their conformity to generally accepted accounting principles for the State agencies and local units of governments it audits, including the State general purpose financial statements prepared by the State Auditor. See Exhibit A-1, including the "Independent Auditor's Report" therein.

IV. STATE BUDGET PROFILE

Operating Revenues

While certain revenues of the State are required by law to be credited to particular funds other than the General Fund, the requirement is primarily for accounting purposes and may be changed. Substantially all State revenues are general revenues until applied. No lien or priority is created to secure the application of such revenues to any particular purpose or to any claim against the State. All revenues not allocated to a particular fund are credited to the General Fund. The general policy of the State is to close each Fiscal Year with a surplus in the General Fund and a zero balance in all other accounts, except for certain dedicated and trust funds and General Fund accounts reimbursed in arrears.

Although established by law as a special revenue fund, it is helpful to combine the receipts and disbursements of the PTRF with those of the General Fund to provide a complete and accurate description of State receipts and discretionary expenditures, especially as those expenditures relate to local school aid. For this purpose, the combined receipts are referred to as State Operating Revenues ("Operating Revenues"). Operating Revenues are defined as the total of General Fund and PTRF revenues forecasted by the Technical Forecast Committee. Total Operating Revenues together with DSH revenues transferred to the General Fund, plus transfers from other funds when necessary and available, are used in the determination of the State's unappropriated balance reflected on the Combined General and PTR Fund Unappropriated Reserve Statement. DSH revenues are extra Medicaid reimbursements provided to the State for hospitals that serve disproportionately large numbers of poor people. See "FINANCIAL RESULTS OF OPERATIONS—Fund Balances—Combined General and PTR Fund."

Major General Fund and PTR Revenue Sources

Sales and use, corporate and individual income taxes are the three primary sources of State Operating Revenues (as hereinafter defined). In Fiscal Year 2001, combined revenues from those sources comprised about 91.9% of total State Operating Revenues. The following is a summary description of each of those revenue sources. See "FINANCIAL RESULTS OF OPERATIONS," including Table 5, "Combined General and PTR Fund."

Individual Adjusted Gross Income Tax. Adjusted gross income (federal adjusted gross income modified by adding back certain federal adjustments and subtracting certain federal exemptions and deductions) of residents and non-residents derived from Indiana sources is taxed at 3.4%.

All revenues derived from the collection of the adjusted gross income tax imposed on persons are credited to the General Fund. For Fiscal Year ended June 30, 2001, the $3,779.8 million in receipts from the adjusted gross income tax on individuals constituted approximately 41.8% of total State Operating Revenues. State individual income tax rates were last increased effective for Calendar Year 1988.

Sales and Use Taxes. A 5.0% sales tax is imposed on sales and rentals of tangible personal property and the sale of certain services, including the furnishing of public utility services and the rental or furnishing of public accommodations such as hotel and motel room rentals. In general, the complementary 5.0% use tax is imposed upon the storage, use or consumption of tangible personal property in the State. Some of the major exemptions from the sales and use taxes are sales of certain property to be used in manufacturing, agricultural production, public transportation or governmental functions, sales for resale, food sold in grocery stores and prescription drugs. Of the receipts collected, 59.03% of the sales and use taxes are credited to the General Fund, 40.00% to the PTRF, 0.76% to the Public Mass Transportation Fund, 0.17% to the Commuter Rail Service Fund and 0.04% to the Industrial Rail Service Fund.

For Fiscal Year ended June 30, 2001, the $3,686.8 million in receipts from the sales and use taxes deposited in the General Fund and PTRF constituted approximately 40.7% of State Operating Revenues. The State sales and use tax rate was last increased in Fiscal Year 1983.

Corporate Income Taxes. There are three major corporate income taxes: the gross income tax, the adjusted gross income tax and the supplemental net income tax. Corporations are generally subject to both the gross income tax and the adjusted gross income taxes; however, as a result of a statutory credit provision, corporations annually pay an amount equal to the greater of the liabilities computed under the gross income tax and the adjusted gross income tax, plus the supplemental net income tax. There is also a financial institutions tax.

Subject to certain exemptions, the gross income tax is generally imposed on the gross receipts of corporations (and certain other taxpayers) that derive income from business within the State. While there are generally no deductions allowed for costs, losses or expenses, some taxpayers (including certain insurance companies, credit companies, wholesale grain and soybean dealers, wholesale grocers, livestock dealers and livestock slaughterers) are taxed on a gross "earnings" basis. In general, receipts from sales made in interstate commerce are exempt.

Gross receipts subject to the gross income tax are taxed at one of two rates, depending upon the transaction being taxed. The lower rate (0.3%) is imposed on receipts from retail sales, wholesale sales, display advertising, dry cleaning and other activities. The higher rate (1.2%) is imposed on all receipts which are not specifically defined to be taxed at the lower rate, including receipts from certain rentals, service income, utility services, earnings on intangibles and sales of realty. All gross income tax receipts are credited to the General Fund.

The adjusted gross income tax is generally applicable to corporations doing business in the State. The tax rate is 3.4% of adjusted gross income derived from sources within the State. Adjusted gross income is federal taxable income with certain additions and subtractions. Certain international banking facilities and insurance companies, S corporations and tax-exempt organizations (to the extent their income is exempt for federal tax purposes) are not subject to the adjusted gross income tax.

Part of the adjusted gross income tax collections is allocated to the General Fund on the basis of a statutory formula and the balance is credited to the PTRF. See "FISCAL POLICIES—Fund Structure—Governmental Funds."

The supplemental net income tax is imposed on all corporations subject to the adjusted gross income tax and on certain domestic insurance companies. The 4.5% tax rate is applied to the supplemental net tax base of the taxpayer. The supplemental net tax base is Indiana adjusted gross income less the greater of (a) the amounts paid under the adjusted gross income tax and (b) the amount paid under the gross income tax. There are no deductions or exemptions under the supplemental net income tax; however, the corporate gross income tax credits apply. All receipts from the supplemental net income tax are credited to the General Fund.

The financial institutions tax is imposed on each corporation that is transacting the "business of a financial institution" in Indiana. The financial institutions tax is a franchise tax on financial institutions, at a rate of 8.5% of adjusted or apportioned income, for the privilege of exercising their franchise or transacting business within the State. Certain exemptions from and credits against the financial institutions tax are available. A taxpayer subject to the financial institutions tax is exempt from the corporate gross income, adjusted gross income and supplemental net income taxes and State banking taxes. All receipts from the financial institutions tax are credited to the Financial Institutions Tax Fund. By statutory formula, a substantial amount of the moneys in such fund must be transferred to counties for distribution to the taxing units within the counties. The remainder is transferred to the General Fund.

For Fiscal Year ended June 30, 2001, corporate income and financial institutions tax receipts totaled $855.3 million and constituted approximately 9.4% of State Operating Revenues. State corporate income tax rates were last increased effective for Calendar Year 1987.

Other Operating Revenues. Other Operating Revenues are derived from Cigarette Taxes, Alcoholic Beverage Taxes, Inheritance Taxes, Insurance Taxes, Interest Earnings and miscellaneous revenue. Revenue from these sources together totaled about $730.1 million or about 8.1% of total Operating Revenues in Fiscal Year 2001.

Revenue History

Individual and sales and use tax receipts increased in each Fiscal Year of the Discussion Period. Corporate income tax receipts declined in Fiscal Years 2000 and 2001, a portion of which can be attributed to tax cuts enacted by the General Assembly in 1999. Annual percentage changes for each component of Operating Revenues are reflected in Table IV-1 shown below. On November 14, 2001 the Economic Forecast Committee presented to the State Budget Committee updated economic projections for the remainder of Fiscal Year 2002 and Fiscal Year 2003.

At the same time, the Technical Forecast Committee released a revised estimate of Operating Revenues for Fiscal Years 2002 and 2003. The November forecast was significantly lower than the April 2001 forecast. These new estimates are reflected in Table IV-1 shown below. See "Financial Results of Operations- Revenue Forecast".

Table IV-1
State Operating Revenues
Growth in State Operating Revenues

State Revenue for Fiscal Years 1996 - 2001 in millions					
	Sales Tax	**Individual Income**	**Corporate Income**	**Other**	**Total**
FY 1996	2,942.3	2,966.3	982.0	622.4	7,513.0
FY 1997	3,112.9	3,196.5	999.3	661.6	7,970.2
FY 1998	3,250.9	3,434.8	1,015.5	720.2	8,421.4
FY 1999	3,396.0	3,699.3	1,044.4	743.5	8,883.2
FY 2000	3,651.4	3,753.3	985.3	752.7	9,142.7
FY 2001	3,686.8	3,779.8	855.3	730.1	9,052.0
Forecasted FY 2002	3,791.4	3,731.6	830.0	652.5	9,005.5
Forecasted FY 2003	3,891.6	3,857.0	855.0	645.9	9,249.5
% Change from Prior Year					
FY 1997	5.8%	7.8%	1.8%	6.3%	6.1%
FY 1998	4.4%	7.5%	1.6%	8.9%	5.7%
FY 1999	4.5%	7.7%	2.8%	3.2%	5.5%
FY 2000	7.5%	1.5%	-5.7%	1.2%	2.9%
FY 2001	1.0%	0.7%	-13.2%	-3.0%	-1.0%
Average	4.6%	5.0%	-2.5%	3.3%	3.8%
Forecasted FY 2002	2.8%	-1.3%	-3.0%	-10.6%	-0.5%
Forecasted FY 2003	2.6%	3.4%	3.0%	-1.0%	2.7%

Source: State Budget Agency

Lottery and Gaming Revenues

All lottery and gaming revenues are appropriated by the General Assembly, and the statute that governs deposits of those revenues also governs priority of distribution in the event that revenues fall short of appropriations. By statute, certain revenues from the Hoosier Lottery and the riverboat gaming wagering tax, horse racing pari-mutuel wagering tax and charity gaming taxes and license fees (collectively, "Gaming Revenues") must be deposited in the Lottery and Gaming Surplus Account (the "Surplus Account") of the Build Indiana Fund.

In 1999, the General Assembly increased the annual transfer of Hoosier Lottery revenues dedicated to funding state and local pension liabilities from $40.0 million to $60.0 million - $30.0 million to the State Teachers Retirement Fund and $30.0 million to the Local Police and Fire Pension Relief Fund. At present, the highest distribution priority (after pension account transfers) is to the State's counties for motor vehicle excise tax replacement, providing for a substantial cut in the excise tax charged on motor vehicles - $234.7 million for Fiscal Year 2001. All Gaming Revenue funds are subject to discretionary appropriation by the General Assembly. Gaming Revenues are dedicated funds and not included in State Operating Revenues. However, Gaming Revenues represent a significant source of discretionary income to the State. For Fiscal Year 2001, lottery and gaming revenues totaling $455.1 million were collected by the State from the following sources:

Hoosier Lottery	$160.0 million
Riverboat gaming	$260.2 million
Horse racing	$2.0 million
Charity gaming	$6.0 million
Interest earnings	$26.9 million

From 1989 through June 30, 2001, lottery and gaming revenues totaling $3.081 billion were collected by the State from the following sources:

Hoosier Lottery	$1,936 .0 million
Riverboat gaming	$995.7 million
Horse racing	$15.3 million
Charity gaming	$33.7 million
Interest earnings	$100.6 million

Source: State Budget Agency

At the end of Fiscal Year 2001, the State had an unobligated balance of $347.3 million in the Surplus Account. In addition, new lottery and gaming revenues available to the State for the 2002-2003 biennium are estimated to total $465.2 million per year.

Although it has been State policy to not use Gaming Revenues to fund operating expenses of the State, the 2001 General Assembly made a decision to use excess Gaming Revenues in the Surplus Account on a temporary basis to help offset General Fund revenue decreases resulting from the current economic slowdown. See "FINANCIAL RESULTS OF OPERATIONS – 2001-2003 Biennial Budget".

The State's 2002-2003 Biennial Budget

Based on the April 11, 2001 revised Revenue Forecast, which projected lower revenues over the budget biennium, the 2001 General Assembly adopted a financial plan that relied on the three following actions to address the potential revenue shortfall in the 2001-2003 budget:

- Transfers to the General Fund-Property Tax Replacement Fund from the Gaming Surplus Account and the Rainy Day Fund.

  The 2001 General Assembly included a provision in the State's 2002-2003 biennial budget to transfer $200 million in Fiscal Year 2002 and $175 million in Fiscal Year 2003 from the Build Indiana Fund to the Property Tax Replacement Fund (PTRF). This increases the amount available to spend from the General Fund-PTRF by $375 million for the biennium. See "STATE BUDGET PROFILE—Lottery and Gaming Revenues."

  The State's 2002-2003 biennial budget also provides two separate mechanisms for transfer of funds from the Rainy Day Fund to the General Fund. First, the budget establishes a maximum balance in the Rainy Day Fund for the 2002-2003 biennium. The maximum is effectively set at the Fund balance existing on June 30, 2001, $526 million. The Budget Agency estimates this provision will result in a transfer of $26.3 million from the Rainy Day Fund to the General Fund in each year of the biennium.

  Second, with the approval of the Governor, and after review by the State Budget Committee, the Budget Agency may transfer, in each year of the biennium, from the Rainy Day Fund to the General Fund, amounts determined by the Budget Director to be necessary to maintain a positive balance in the General Fund. This provision effectively permits the Budget Agency to transfer funds from the Rainy Day Fund to the General Fund to cover all General Fund-PTRF spending authorized in the biennial budget. It is currently estimated that no Rainy Day Fund transfers (other than those explained in the preceding paragraph) will be needed during the 2002-2003 biennium to balance the General Fund—PTRF budget. However, this provision exists and is available should actual revenue collections fall short of the State revenue forecast period.

- Delays in payments for local school aid, higher education and property tax relief have been scheduled. Although the General Assembly appropriated a full years funding for each year of the biennium for local school aid, higher education and property tax relief, the budget passed by the General Assembly effectively permits the Budget Agency to delay until Fiscal Year 2003 one regular payment for each purpose that would otherwise have been made in Fiscal Year 2002. A payment delay of $537.8 million for K-12, Higher Education, and Local Units will occur in fiscal year 2002. Because these recipients are on a calendar year, these delays, while impacting the fiscal year-end for the State, result in only a few days of cash flow changes for the recipients.

- Modest spending reductions in general governmental operations. The final spending plan agreed to by the Governor and the General Assembly for the 2002-2003 biennium increased the requirement for General Fund-PTRF reversions – funds appropriated but left unspent at the end of a Fiscal Year - by $25 million for each year. It is expected that under the direction of the Governor, the Budget Agency will selectively reduce budget allotments to create the mandatory reversions. See "FISCAL POLICIES—Accounting System."

The actions outlined above permitted passage of a budget that included funding increases for essential governmental services and made strategic economic investments for the 2002-2003 biennium. Those appropriation increases can be described in four broad categories:

- Education, reflecting the State's commitment to invest in primary, secondary and higher education.
- Economic Development, showing a continuing commitment to support the development and use of new technology and promote economic development.
- Public Safety, including increased spending to open and operate two new correctional facilities.
- Social Services, to improve the care of developmentally and mentally challenged adults and children.

For Fiscal Year 2002, the first year of the new biennium, estimated spending for the five largest functional categories total $8,499.9 million, or about 82.8% of the General Fund - PTR Fund combined total. Following is a discussion of those five largest categories. Numbers are derived from the Budget Agency's biennial List of Appropriations and unaudited working statements. See "FINANCIAL RESULTS OF OPERATIONS," including "Table 5, Combined General and PTR Fund."

Local School Aid. The State's largest operating expense payable from both the General Fund and PTRF is for local school aid. Local school aid includes distributions for programs such as assessment and performance in addition to direct tuition support. As a matter of long-standing fiscal policy, the General Assembly funds increases in local school aid above the base by appropriating one-half of the increases from the General Fund and one-half of such increases from the PTRF. The General Assembly established the State's calendar year 1972 funding level as a base for local school aid.

Local school formula funding for direct tuition support on a school by school basis increased by an average of 3.5% for calendar years 2002 and 2003 with no school corporation receiving an increase of less than 2.0% in regular tuition dollars. Combined local school aid appropriations for Fiscal Year 2002 from the General Fund—PTRF total $4,172.3 million and constituted 40.6% of the combined General Fund—PTRF budget.

The 2002-2003 biennial budget also included funding for several new or expanded initiatives. The budget included $20 million for professional teacher development in Fiscal Year 2003, $10 million per year to implement full day kindergarten, $2.5 million per year for reading diagnostic assessment and funding to move the kindergarten enrollment date from June 1 to July 1.

Higher Education. The second largest operating expenditure, payable solely from the General Fund, is aid to higher education. Higher education aid includes appropriations to State-supported higher education institutions equal to debt service due on qualified debt of such institutions. See "Fee Replacement Appropriations to State Universities and Colleges" below. General Fund appropriations for higher education for Fiscal Year 2002 total $1,410.9 million and constitute about 13.7% of the estimated combined General and PTR Fund spending level. This represents an increase for Higher Education of about $33.4 million, or 2.4%, over estimated Fiscal Year 2001 spending.

Appropriations for the 2002-2003 biennium include $3.25 million per year for additional community college start-ups, $6 million to freeze fees at Vincennes University and Indiana Vocational Tech College in support of the community college program and $4.8 million for a new School of Informatics at Indiana University.

Fee Replacement Appropriations to State Universities and Colleges

Since Fiscal Year 1976, the General Assembly has appropriated to each State university and college an amount equal to the annual debt service requirements due on qualified outstanding Student Fee and Building Facilities Fee Bonds and other amounts due with respect to debt service and debt reduction for interim financings (collectively, "Fee Replacement Appropriations"). The annual Fee Replacement Appropriations are not pledged as security for such bonds and other amounts. Under the State constitution, the General Assembly cannot bind subsequent General Assemblies to continue the present Fee Replacement Appropriations policy; however, it is anticipated that the present policy will continue for outstanding bonds and notes.

The estimated aggregate principal amount of bonds and notes issued by State universities and colleges and outstanding on June 30, 2001, which is eligible for Fee Replacement Appropriations, and the amount of Fee Replacement Appropriations with respect thereto for Fiscal Year 2002 is shown below.

	Estimated Amount of Debt Outstanding June 30, 2001	Fiscal Year 2002 Fee Replacement Appropriation
Ball State University	$ 61,840,000	$ 9,460,987
Indiana University [1]	399,389,738	52,323,279
Indiana State University	64,885,000	7,159,560
Indiana Vocational Tech College	69,527,000	10,044,038
Purdue University[2]	219,287,921	33,643,833
University of Southern Indiana	35,541,902	3,989,274
Vincennes University	14,032,908	2,070,468
Total	$864,504,469	$118,691,439

(1) Includes its regional campuses other than Indiana University-Purdue University at Fort Wayne.
(2) Includes its regional campuses other than Indiana University-Purdue University at Indianapolis.

Source: Indiana Commission for Higher Education.

Property Tax Relief. The third largest operating expenditure, payable solely from the PTRF, is for property tax relief. The budget for the 2002-2003 biennium extended the Homestead Credit at 10% until December 31, 2003. The 10% level was set to expire and return to 4% on December 31, 2001. Spending for property tax relief, including the Homestead Credit and additional credits enacted by the 2001 General Assembly is expected to total $1,179.8 million for Fiscal Year 2002, about 11.5% of the combined General Fund-PTRF spending level. See "STATE BUDGET PROFILE—Revenue Reductions."

Medicaid. The fourth largest operating expenditure, payable largely from the General Fund is the State's share of Medicaid assistance. Nursing Home Care remains the largest component of Medicaid spending, about $878.6 million for Fiscal Year 2002, and prescription drug costs are the fastest growing category of Medicaid expense, with costs of $676.4 million in Fiscal Year 2002 projected to rise 17% by Fiscal Year 2003. The General Assembly set appropriations for the State share of Medicaid at $1,171.0 million for Fiscal Year 2002, about 11.4% of combined General Fund-PTRF spending level. The budget included funding for increased base spending on Medicaid as a result of an expansion of Medicaid eligibility criteria. In addition, the General Assembly directed FSSA to undertake an aggressive package of cost containment initiatives aimed at reducing the growth in State spending for Medicaid for Fiscal Years 2002-2003.

Cost containment initiatives were expected to result in decreased expenditures of up to $81 million for Fiscal

Year 2002 and $120 million for Fiscal Year 2003. However, the December 2001 forecast anticipates an additional $44.5 million in state expenditures over the biennium due primarily to enrollment growth in the adult and children aid categories. In late June, the State lost a lawsuit to Patricia Day (Day Case), which changes the medical eligibility criteria for determining whether an applicant is eligible to receive Medicaid disability benefits. See "LITIGATION". The December 2001 forecast also incorporates prospective Day expenditures totaling $63.9 million over the biennium. The retroactive eligibility of Day is estimated at $322.7 million. Based on the current appropriation, Medicaid faces a shortfall of state funds of $76.7 in Fiscal Year 2002 and $154.6 in Fiscal Year 2003. Although some of the components comprising the deficit changed (enrollment increases and Day estimate), the net deficit remains basically unchanged from the April forecast.

In January 2002, FSSA outlined a series of proposals and program reforms designed to achieve $255.1 million in Medicaid savings. These savings are designed to bring total Medicaid expenditures back in line with budgeted appropriations for the 2002-2003 biennium.

Department of Correction. The fifth largest operating expenditure, payable almost entirely from the General Fund, is for the Department of Correction. To meet a growing prison population, the 1997 General Assembly authorized the State Office Building Commission to issue bonds to finance the construction of: (1) Phase I of the Miami Correctional Facility, an additional medium security facility to provide 1,400 beds for adult males in Miami County, Indiana; (2) an additional 350 bed correctional facility for male juveniles near Pendleton, Indiana; and, (3) a special needs facility with 1,800 beds to be converted from an existing State institution near New Castle, Indiana. In addition, the 1999 General Assembly authorized the State Office Building Commission to issue bonds to finance Phase II of the Miami Correctional Facility. Phase I of the Miami Correctional Facility was completed in July, 1999. The Pendleton Juvenile Facility opened in July, 2000. Phase II of the Miami Correctional Facility opened in August 2001. See "STATE INDEBTEDNESS – Table 7 – Schedule of Long Term Debt Obligations Payable from Possible State Appropriations." The New Castle Correctional Facility is expected to be open and start receiving inmates in the Spring of 2002. The opening of these two new facilities will cause spending for corrections to grow in the 2002-2003 biennium. Appropriations for the Department of Correction for Fiscal Year 2002 total $565.9 million, an increase over actual Fiscal Year 2001 spending of about $34.3 million or 6.5%. Department of Correction accounts for about 5.5% of total General Fund-PTRF appropriations for Fiscal Year 2002.

Other. The balance of State expenditures is comprised of spending for a combination of other purposes, the principal ones being the costs of institutional care and community programs for persons with mental illnesses and developmental disabilities, State administrative operations, the State's share of public assistance payments, the General Fund's one-half share of State Police costs, State economic development programs and General Fund expenditures for capital budget needs of the State. For Fiscal Year 2002 other combined General Fund-PTRF appropriations total $1,766.0 million. This constitutes approximately 17.2% of the estimated combined General and PTR Fund spending level for all purposes.

Transfers. In addition to direct General Fund expenditures, transfers may be made out of or into the General Fund. The principal transfers are (a) from the General Fund to the PTRF and the Rainy Day Fund or (b) from the Rainy Day Fund to the PTRF and the General Fund and for the 2002-2003 biennium, (c) from the Build Indiana Fund to the General Fund. See "FISCAL POLICIES—Rainy Day Fund," "FINANCIAL RESULTS OF OPERATIONS," including "Table 5, Combined General and PTR Fund" and "STATE BUDGET PROFILE—Lottery and Gaming Revenues."

V. FINANCIAL RESULTS OF OPERATIONS

Fiscal Management

Indiana's fiscal policy is aimed at building and maintaining strong unappropriated balances and reserves in its Rainy Day and combined General and PTR Fund, while adequately funding education and other essential governmental functions, wisely managing debt issuance and aggressively addressing unfunded liabilities in State pension, or retirement systems, especially the State Teachers' Retirement Fund. See also "STATE RETIREMENT SYSTEMS."

Revenue Forecast

On November 14, 2001, the Economic Forecast Committee presented to the State Budget Committee projections of Gross Domestic Product (GDP) and personal income for the U.S. and Indiana for the fourth quarter of 2001 through the second quarter of 2003. The Committee expects a relatively shallow and short-lived decline in real GDP. The Committee forecasts real GDP to decline (1.9%) in the 4th quarter of 2001 and (1.0%) in the first quarter of 2002. The Committee predicts a modest recovery to begin in the second quarter of 2002 with forecasted quarterly real GDP of 1.5%, 3.1%, 3.0%, 2.9% and 2.8% respectively from the second quarter of 2002 through the second quarter of 2003. The Committee expects personal income growth in the U.S. to average 1.8% in fiscal year 2002 and then rise to 4.0% in fiscal year 2003.

In presenting this forecast, the Economic Forecast Committee suggested a relatively mild U.S. recession primarily due to very simulative monetary and fiscal policies. In addition, productivity continues to be unusually strong and the inventory correction process is already well toward completion. Because the Committee anticipates a mild recession with consumer spending on durable goods, particularly autos, holding up fairly well, Indiana non-farm personal income is expected to increase only 0.5% less than U.S. personal income this fiscal year and at about the same rate in fiscal year 2003. The Committee forecasts Indiana non-farm personal income to increase 1.3% in fiscal year 2002, and 4.0% in fiscal year 2003.

As a result of the new forecast by the Economic Forecast Committee, the Technical Forecast Committee revised the April, 2001, General Fund-Property Tax Replacement Fund revenue forecast for Fiscal Years 2002 and 2003. The projected slowdown in growth of the economy caused the Technical Committee to lower revenue projections for Fiscal Year 2002 to negative (0.5%) revenue growth for fiscal year 2002 and 2.7% growth for 2003. For a discussion of how this revenue reduction is expected to impact State balances and reserves for the 2001-2003 biennium, see "FINANCIAL RESULTS OF OPERATIONS—Combined General and PTR Fund."

Fund Balances

The State has four primary funds that build or hold unappropriated reserves: the Rainy Day Fund, Tuition Reserve, Medicaid Reserve, and Combined General and PTR Fund . The Medicaid Reserve Account was not included as part of the State's combined balances and reserves prior to June 30, 2001. Each of these funds is described below.

Rainy Day Fund. One of three primary funds into which general purpose tax revenues are deposited, the Rainy Day Fund is a statutorily required State savings account that permits the State to collect and maintain substantial revenues during periods of economic expansion for use during periods of economic recession. As described under "FISCAL POLICIES — Rainy Day Fund," The Rainy Day Fund has been funded at the maximum permitted by law in each of the last four Fiscal Years. However, the State's 2001-2003 biennial budget provides two separate mechanisms for transfer of funds from the Rainy Day Fund to the General Fund during Fiscal Years 2002 and 2003. See "STATE BUDGET PROFILE, The State's 2002-2003 Biennial Budget."

The 2001 General Assembly increased the amounts that certain local units may borrow from the Rainy Day Fund under certain conditions. If all local units borrow the maximum for which they are now eligible, loans from the Rainy Day Fund could increase by $11.4 million during the 2002-2003 biennium. All loans are subject to approval of the Board of Finance and must be repaid no later than 10 years from the date the loans are made.

The State has never had any automatic withdrawals from the Rainy Day Fund to the General Fund. Rainy Day Fund balances are reflected on Table V-1.

Table V-1
Rainy Day Fund
Schedule of Cash Flow
(millions of $)

	Actual					Projected	
	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Beginning Cash Balance	$439.5	$466.1	$496.1	$524.7	$539.9	$526.0	$526.0
Interest Earned[(1)]	25.7	27.2	27.5	29.8	32.2	26.3	26.3
Principal Payments and Sale Proceeds[(2)]	0.7	0.5	0.5	0.5	0.1	-	-
Net Transfers by Law[(3)]	0.2	2.4	0.6	(15.1)	(46.3)	-	-
Transfer to Maintain Balance[(4)]	0.0	0.0	0.0	0.0	0.0	(26.3)	(26.3)
Ending Cash Balance	$466.1	$496.1	$524.7	$539.9	$526.0	$526.0	$526.0
Maximum Allowable Fund Balance	$466.1	$496.1	$524.7	$539.9	$526.0	$526.0	$526.0
Loans Outstanding[(5)]	$2.1	$1.4	$0.8	$0.5	$0.9	$12.8	$12.8

(1) Interest assumed at 5.0% for FY 2002-2003; includes interest payments received on loans make.
(2) Payments of principal received on loans made.
(3) Net Transfers reflect: (a) in FY1997, a $19.8 million transfer from the General Fund and a $19.6 million transfer to the PTRF; (b) in FY1998, a $21.1 million transfer from the General Fund and $18.7 million transfer to the PTRF; (c) in FY1999, a $140.9 million transfer from the General Fund and a $140.3 million transfer to the PTRF; (d) in FY2000, a $162.1 million transfer to the PTRF and a $147.0 million transfer from the General Fund; (e) in FY2001, a $202.5 million transfer to the PTRF and a $156.2 million transfer from the General Fund.
(4) It is estimated $26.3 million will be transferred to the General Fund in FY2002 and FY2003 to maintain the June 30, 2001 level of $526.0 million.
(5) Includes loans totaling $12,841,652 to City of Hammond, City of Beech Grove, Beech Grove Schools and City of East Chicago. No Further loans may be made without authorization by the General Assembly.

Source: State Budget Agency.

Tuition Reserve. The Tuition Reserve is essentially a cash flow device that is intended to ensure that local school aid payments are timely. Pursuant to State statute, prior to each June 1, the Budget Agency is required to estimate and formally establish the reserve for the ensuing Fiscal Year. The Tuition Reserve was maintained at $120.0 million from Fiscal Year 1977 through Fiscal Year 1988; however, the State steadily increased the amount of the Tuition Reserve from Fiscal Year 1989 through 2000. The Tuition Reserve was set at $265.0 million for Fiscal Year 2001.

Table V-2
Tuition Reserve
(millions of $)

Actual					Projected	
FY 1997	FY 1998	FY1999	FY 2000	FY 2001	FY 2002	FY 2003
$ 240.0	$ 240.0	$ 255.0	$ 265.0	$ 265.0	$265.0	$265.0

Source: State Budget Agency

Medicaid Reserve

In 1995, the General Assembly established the Medicaid Reserve and Contingency Account for the purpose of providing funds for the timely payment of Medicaid claims, obligations and liabilities. Prior to the start of Fiscal Year 2002, the Medicaid Reserve was intended to represent the estimated amount of obligations that were incurred, but remained unpaid, at the end of each respective Fiscal Year. For the 2002-2003 biennium, the General Assembly set the Reserve level at $100 million, and for the first time, the Budget Agency included the Reserve in the State's combined Balances and Reserves. The State used about $58.5 million of the $203.8 million balance in the Reserve to pay for an appropriation shortfall for Fiscal Year 2001, leaving a balance in the Reserve of $145.3 million on June 30, 2001. On July 1, 2001, the Budget Agency transferred $44.9 million to the General Fund to set the Reserve at the $100 million level for the 2002-2003 biennium.

Combined General and PTR Fund. The PTRF was created by statute in Fiscal Year 1973. It is funded from 40% of revenues from the State sales and use tax and a portion of corporate adjusted gross income tax receipts. The PTRF is used for two purposes: first, to replace local property tax levies ("PTRF Credits"), which were reduced by the same statute that created the PTRF; and, second, for local school aid. To the extent that the PTRF does not have sufficient revenues to make authorized payments, General Fund transfers may be made to the PTRF. In Fiscal Year 2001, $721.0 million was transferred from the General Fund to balance the PTRF. It is expected that substantial General Fund transfers will also be required in future Fiscal Years.

The General Fund and the PTRF are the primary funds into which general purpose tax revenues, or Operating Revenues, are deposited or transferred. Although reported as a special revenue fund, it is helpful to combine the receipts and disbursements of the PTRF with those of the General Fund to provide a more complete and accurate description of the State's Operating Revenues and discretionary spending, especially for local school aid and property tax relief. Therefore, the General Fund and the PTRF are sometimes discussed in this Appendix A as a single, combined fund.

This discussion, and Table 5, summarize the actual results of State operations for the Discussion Period, as well as the Budget Agency's projected financial results of operations for the Fiscal Years ending June 30, 2002 and 2003, for the combined General and PTR Fund.

The financial results summarized in this discussion are derived from the Budget Agency's unaudited end-of-year working balance statements and projections based on the 2002-2003 biennial budget and Revenue Projections released November 14, 2001. The working balance statements are a listing of revenues, expenditures and unappropriated (or working) balances at the end of each Fiscal Year, before adjustment to the modified accrual basis of accounting. As a result, the working balance statements may differ from the results included in the State Auditor's annual reports.

There is not a significant difference in the method of accounting between the working balance statements and the annual reports. Expenditures on the working balance statements include continuing appropriations that were unspent at the end of each Fiscal Year. The unappropriated balance is the cumulative excess of revenues over expenditures on the working balance statements.

Because Revenue Projections were reduced after the 2002-2003 biennial budget was passed, the ending balance for the Combined General and PTR Fund shows a negative balance for Fiscal Years 2002 and 2003. **The State Constitution prohibits the General Fund from falling below zero.** As a result of this structural imbalance, the Governor has ordered cuts in most general government spending and proposed a plan to balance the budget to be considered by the 2002 General Assembly. The details of the Governor's plan are laid out in a later section, see "Governor's Spending Reductions and Balanced Budget Plan" (The Plan).

The Plan relies on a number of actions, some of which can be accomplished administratively and others that require Legislative authority. However, if the legislature does not act, the Governor has the authority to balance the budget through administrative actions and plans are in place to address the budget imbalance regardless of what the Legislature does. The State Budget Agency has the ability to transfer appropriations from one account to another within an agency as long as the accounts do not have non-reversion language. The Budget Agency also has broad authority to control spending through the allotment process as long as the reduction is "necessary" to prevent a deficit financial situation. Pursuant to Section 35 of the 2001-2003 budget bill: "Subject to section 30 of this Act as it relates to the budget committee, the budget agency, with the approval of the governor, may withhold allotments of any or all appropriations as contained in this Act for the 2001-2003 biennium, if it is considered necessary to do so in order to prevent a deficit financial situation."

In addition, the State Budget Director can withhold funds obligated under executory contracts; each state contract contains a mandatory clause. In the event the State Budget Director makes a written determination that funds are not appropriated or otherwise available to support the continuation of performance of the Agreement by the State, the Agreement shall be canceled.

Finally, the State Board of Finance (comprised of the Governor, Treasurer, and Auditor) has the authority to transfer money between agencies. The Board has the authority to borrow money or funds for up to four years to meet "casual deficits" in state revenue, and can levy a property tax to payoff the loans if required. The Board also has a limited ability to transfer gaming or tobacco funds to the extent that the money is in non-reverting funds that are not trust funds.

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Table V-3:
Combined General and PTR Fund
(millions of $)

	Actual					Projected	
	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY2002(1)	FY2003(1)
Operating Revenues (2)	7,970.2	8,421.4	8,883.2	9,142.7	9,052.0	9,005.5	9,249.5
Transfers:							
DSH	74.6	60.5	57.5	57.2	70.9	57.5	57.5
From Lottery and Gaming						200.0	175.0
From Medicaid Reserve					103.4		
From (To) Rainy Day Fund	(0.2)	(2.4)	(0.6)	15.1	46.3	26.3	26.3
Total Revenue	8,044.6	8,479.5	8,940.1	9,215.0	9,272.6	9,289.3	9,508.3
Appropriations and Expenditures							
Local School Aid	3,092.2	3,423.1	3,691.8	3,894.0	4,138.1	4,172.3	4,347.8
Higher Education	1,101.8	1,180.5	1,248.0	1,331.5	1,377.5	1,410.9	1,440.1
PTRF Credits	822.1	873.3	946.7	1,078.6	1,220.0	1,179.8	1,157.0
Medicaid	931.3	913.3	948.5	986.1	1,126.3	1,171.0	1,248.8
Correction	369.5	403.9	410.9	473.5	531.6	565.9	569.0
All Other	1,614.4	1,504.3	1,802.4	1,829.8	1,693.1	1,766.0	1,833.2
Subtotal Appropriations and Expenditures	7,931.3	8,298.4	9,048.3	9,593.5	10,086.6	10,265.9	10,595.9
Less:							
Reversions	-	-	-	-	-	103.0	82.0
Mandatory Reversions	-	-	-	-	-	25.0	25.0
Total Reversions	-	-	-	-	-	128.0	107.0
Payment Delays:(3)							
Tuition Support	-	-	-	-	-	289.3	-
Higher Education	-	-	-	-	-	94.4	-
PTR Credits	-	-	-	-	-	154.1	-
Total Payment Delays	-	-	-	-	-	537.8	-
Total Expenditures	7,931.3	8,298.4	9,048.3	9,593.5	10,086.6	9,600.1	10,488.9
Excess (Deficiency) of Revenues Over Expenditures	113.4	181.1	(108.2)	(378.5)	(814.0)	(310.8)	(980.6)
Beginning General Fund Balance	1,024.8	1,138.2	1,319.3	1,211.1	832.6	18.6	(292.2)
Ending General Fund Balance	1,138.2	1,319.3	1,211.1	832.6	18.6	(292.2)	(1,272.8)

(1) Amounts for FY2002-2003 are merely projections and actual results may differ materially from such projections. Important factors that could cause actual results to differ materially from projections included future economic conditions in Indiana, including retail sales, individual income and corporate income in Indiana and future changes to Indiana's tax laws and appropriations by the General Assembly.
(2) Operating Revenues are those revenues forecast by the Revenue and Technical Forecast Committee.
(3) Payment delays reflect the Budget Agency's ability, as authorized by the 2001 General Assembly, to delay until FY2003, one regular payment for each purpose that would otherwise have been made in FY2002.

Source: State Budget Agency

Combined State Balances and Reserves

The State's total "Balances and Reserves" are defined as the balances in the combined General and PTR Fund, together with the balances in the Rainy Day Fund, the Tuition Reserve and beginning with Fiscal Year 2001, the Medicaid Reserve. To reflect the real level of Balances and Reserves on a continuing basis, they are expressed as a percent of Total Revenues. Table V-4 sets forth a history of total State Balances and Reserves compared to Total Revenues for the past six years and projections for Fiscal Years 2002-2003. Although Fiscal Year 2003 projects a negative Combined Balances and Reserves, the State Constitution prohibits the General Fund from running a negative balance. The Governor has proposed a plan to deal with the projected shortfall, see, "Governor's Spending Reductions and Balanced Budget Plan" (The Plan). However, if the legislature does not act, the Governor has the authority to balance the budget through administrative actions and plans are in place to address the budget imbalance regardless of what the Legislature does, see "Combined General and PTR Fund".

Table V-4
Combined State Reserves and Balances
(in millions of $)

State Fiscal Year	Combined Property Tax-General Fund	Tuition Reserve	Rainy Day Fund	Medicaid Reserve (2)	Total Balances	Total Revenue	Balance as % of Total Revenues
- - - - - - - - -Actual - - - - - - - - -							
1996	1,024.8	215.0	439.5	N/A	1,679.3	7,569.8	22.2%
1997	1,138.2	240.0	466.1	N/A	1,844.3	8,044.6	22.9%
1998	1,319.3	240.0	496.1	N/A	2,055.4	8,479.5	24.2%
1999	1,211.1	255.0	524.7	N/A	1,990.8	8,940.1	22.3%
2000	832.6	265.0	539.9	N/A	1,637.5	9,215.0	17.8%
2001	18.6	265.0	526.0	100.0	909.6	9,272.6	9.8%
- - - - - - - - -Projected - - - - - - - - -							
2002	(292.2)	265.0	526.0	100.0	598.8	9,289.3	6.4%
2003	(1,272.8)	265.0	526.0	100.0	(381.8)	9,508.3	-4.0%

(1) Projected balances are based on the Revenue Forecast dated November 14, 2001 and revenue and spending acts passed by the General Assembly through the 2001 Session.
(2) The Medicaid Reserve was not included as a part of combined reserves and balances until Fiscal Year 2001.
(3) Does not reflect any liability for payment delays. (See explanation below)

Source: State Budget Agency

Combined balances and reserves for Fiscal Years 2002 and 2003 shown in Table V-4 do not reflect any liability for payment delays authorized for the 2002-2003 biennium. The Budget Agency estimates payment delays totaling $537.8 million for Fiscal Year 2002. Delays in payments to schools, universities and local units of government have been authorized by the 2001 General Assembly. See "STATE BUDGET PROFILE—The State's 2002-2003 Biennial Budget." There is no legal obligation for the State to make up for any payments that actually get delayed. And, should actual revenue exceed estimates, the additional revenue could be used to reduce payment delays. However, there is a reasonable expectation that the General Assembly will attempt to make up any payments that do get delayed in the 2002-2003 biennium with increased funding in the 2004-2005 biennium.

The Budget Agency believes the combination of reserves and balances and the ability to delay significant payments, plus other provisions included in the Balanced Budget Plan, provide the State sufficient flexibility to manage the budget even if actual General Fund/PTRF revenues fall significantly short of the State's revenue forecast for the 2002-2003 biennium. If the legislature does not act, the Governor has the authority to balance the budget through administrative actions. See "Governor's Spending Reductions and Balanced Budget Plan." Under Governor O'Bannon's leadership the administration is committed to resolving the state's budget deficit while maintaining essential state services. This resolution will include both one-time and permanent base spending cuts and/or delays, transfers from reserve accounts, reallocation of tobacco settlement and gaming funds, and revenue enhancements. See "Balanced Budget Plan" table.

Governor's Spending Reductions and Balanced Budget Plan

On July 11, 2001, Governor O'Bannon announced spending cuts and pledged to aggressively identify ways to address current budget shortfalls. The Governor announced he had instructed the Budget Agency to withhold allotments and set aside 7% of most executive-branch operating budgets. See "FISCAL POLICIES—Accounting System" regarding the Budget Agency's authority to withhold allotments. However, in calling for fiscal restraint, the Governor announced additional actions designed to reduce State spending as follows:

- Review contracted services and State grants
- Review the State staffing table and personnel costs
- Review State programs for possible suspension, cuts or elimination
- Consider implementing more fee increases

In response to the November 2001 updated revenue forecast, Governor O'Bannon announced his Balanced Budget Plan to resolve the state's budget deficit and to maintain essential state services. The plan includes a four-pronged approach to deficit management:

- Both one-time and permanent base spending cuts and/or delays
- Transfers from reserve accounts
- Reallocation of tobacco settlement and gaming funds
- Revenue enhancements

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Table V-5
Governor's Balanced Budget Plan

Balanced Budget Plan (in Millions of Dollars)	**FY2002**	**FY2003**	**One-Time or Base Adjustment**	**Admin or Leg Action**
Delays, Transfers, and Reallocations of Resources				
Payment delays for K-12, Higher Education, and Local Units*	$537.8	-	One-Time	Admin
Transfer of Rainy Day Fund	$165.0	-	One-Time	Admin
Reallocate $10 million Gaming Revenue from Horse Racing	-	$10.0	One-Time	Leg
Tobacco Trust Fund	$50.0	$90.0	Base Adj.	Leg
Replace 10% of "Tuition Support with School CPF Levy	-	$115.2	One-Time	Leg
Suspend Homeowner Income Tax Deduction & Business Add Back	-	$162.7	Base Adj.	Leg
Subtotal	**$752.8**	**$377.9**		
Revenue Enhancements				
Cigarette Tax $0.50 per Pack (effective May 1, 2002)	$30.7	$367.9	Base Adj.	Leg
Increase Gaming Admissions Tax by $2.00	-	$84.0	Base Adj.	Leg
Fee Increases	-	$15.0	Base Adj.	Leg
Subtotal	**$30.7**	**$466.9**		
One-Time Reversions				
Cuts in Operating Across all Categories EXCEPT Education*	$113.0	$209.0	One-Time	Admin
No pay raise for state employees*	$ 15.0	-	One-Time	Admin
State Capital Projects Cutbacks	$ 32.0	-	One-Time	Admin
Higher Education R&R Cutbacks	$ 16.0	-	One-Time	Admin
Subtotal	**$176.0**	**$209.0**		
General Fund Cuts				
State Government Appropriations	-	$109.0	Base Adj.	Admin
Medicaid Cuts from April 2001 Forecast	$100.0	$150.0	Base Adj.	Admin
Higher Education University Operating Appropriations	-	$ 29.0	Base Adj.	Admin
TRF Cost of Living Appropriations	-	$ 11.7	Base Adj.	Admin
Subtotal	**$100.0**	**$299.7**		
Total	**$1,059.5**	**$1,353.5**		

*Portion or all of this item already implemented.

The following table presents the State's Balances and Reserves over the next two biennium, under the Governor's Balanced Budget Plan.

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Table V-6
Indiana's Projected Reserve Statement with the Governor's Balanced Budget Plan

Resources:	Actual FY 2001	Projected FY 2002	Projected FY 2003	Projected FY 2004	Projected FY 2005
Working Balance at July 1	832.6	18.6	51.8	323.4	316.7
Current Year Resources					
Forecast Revenue	9,052.0	9,005.5	9,249.5	9,735.1	10,246.2
Revenue Enhancements	-	61.3	639.6	650.7	660.5
DSH	70.9	57.5	57.5	57.5	57.5
Transfer from Lottery&Gaming/Tobacco	-	250.0	265.0	190.0	190.0
Transfer from Medicaid Reserve	103.4	-	-	-	-
Transfer from Rainy Day Fund	46.3	165.0	90.0	-	-
Total Current Year Resources	9,272.6	9,539.3	10,301.6	10,633.3	11,154.2
Total Resources	10,105.2	9,557.9	10,353.4	10,956.7	11,470.9
Uses:					
Budgeted Appropriations	10,159.3	10,211.9	10,340.2	10,685.0	11,038.9
Adjustments	(35.3)	-	-	-	-
Medicaid Shortfall & Other Adjustments	58.5	-	(115.2)	-	-
Judgements and Settlements	7.0	8.0	8.0	8.0	8.0
Total Appropriations & Expenditures	10,189.5	10,219.9	10,233.0	10,693.0	11,046.9
Payment Delays					
Higher Education Allotment	-	(94.4)	-	-	47.0
Tuition Support Distribution	-	(289.3)	-	-	145.0
Property Tax Replacement Credit	-	(154.1)	-	-	77.0
Reversions	(102.9)	(176.0)	(203.0)	(53.0)	(25.0)
Total Net Uses	10,086.6	9,506.1	10,030.0	10,640.0	11,290.9
General Fund Balance at June 30	18.6	51.8	323.4	316.7	180.0
Reserved Balances					
Medicaid Reserve	100.0	100.0	100.0	100.0	100.0
Tuition Reserve	265.0	265.0	265.0	265.0	265.0
Rainy Day Fund	526.0	382.0	307.3	319.6	332.4
Total Combined Balances	**909.6**	**798.8**	**995.7**	**1,001.3**	**877.4**
% of Operating Revenues	**9.8%**	**8.4%**	**9.7%**	**9.4%**	**7.9%**

If the legislature does not act, the Governor has the authority to balance the budget through administrative actions. The State Budget Agency has the ability to transfer appropriations from one account to another within an agency as long as the accounts do not have non-reversion language. The Budget Agency also has broad authority to control spending through the allotment process as long as the reduction is "necessary" to prevent a deficit financial situation. Pursuant to Section 35 of the 2001-2003 budget bill: "Subject to section 30 of this Act as it relates to the budget committee, the budget agency with the approval of the governor may withhold allotments of any or all appropriations as contained in this Act for the 2001-2003 biennium, if it is considered necessary to do so in order to prevent a deficit financial situation."

In addition, the State Budget Director can withhold funds obligated under executory contracts; each state contract contains a mandatory clause. In the event the State Budget Director makes a written determination that funds are not appropriated or otherwise available to support the continuation of performance of the Agreement by the State, the Agreement shall be canceled.

Finally, the State Board of Finance (comprised of the Governor, Treasurer, and Auditor) has the authority to transfer money between agencies. The Board has the authority to borrow money or funds for up to four years to meet "casual deficits" in state revenue, and can levy a property tax to payoff the loans if required. The Board also has a limited ability to transfer gaming or tobacco funds to the extent that the money is in non-reverting funds that are not trust funds.

VI. STATE INDEBTEDNESS

Constitutional Limitations on State Debt

The State may not incur indebtedness under Article X, Section 5 of the State constitution, except in the following cases: to meet casual deficits in revenues; to pay interest on State debt; or to repel invasion, suppress insurrection or, if hostilities are threatened, to provide for the public defense. The State has no indebtedness outstanding under the Indiana constitution. See "FISCAL POLICIES—State Board of Finance."

Other Debt, Obligations

Substantial indebtedness anticipated to be paid from State appropriations is outstanding, together with what are described below as "contingent obligations." Such indebtedness and obligations are described in the following pages. In addition, various State universities and colleges have issued bonds, notes and other obligations, the debt service on which, though payable from student fees and other sources, is eligible for fee replacement appropriations by the General Assembly from State general purpose tax revenues. See "STATE BUDGET PROFILE—The State's 2002-2003 Biennial Budget—Higher Education." In addition, the commissions and authorities described below may issue additional debt or incur other obligations from time to time to finance additional facilities or projects or to refinance such facilities or projects. The type, amount and timing of such additional debt or other obligations not already authorized is subject to a number of conditions that cannot be predicted at present. See "STATE INDEBTEDNESS—Authorized but Unissued Debt."

Obligations Payable from Possible State Appropriations

The Indiana General Assembly has created certain financing entities, including the State Office Building Commission, the Transportation Finance Authority, the Recreational Development Commission and the Indiana Bond Bank which are each public bodies corporate and politic and separate from the State. These financing entities have been granted the authority to issue revenue bonds and finance the construction, reconstruction and equipping of various capital projects. Certain agencies, including the Indiana Department of Administration, the Indiana Department of Transportation and the Indianapolis Airport Authority (under an agreement with the Indiana Department of Commerce) have entered into use and occupancy agreements or lease agreements with the financing entities. Lease rentals due under the agreements are payable primarily from possible appropriation of State funds by the General Assembly. However, there is and can be under State law no requirement for the General Assembly to make any such appropriations for any facility in any Fiscal Year. No trustee or holder of any revenue bond issued by any financing entity may legally compel the General Assembly to make any such appropriations. Revenue bonds issued by any of the financing entities do not constitute a debt, liability or pledge of the faith and credit of the State within the meaning of any constitutional provision or limitation. Such use and occupancy agreements, lease agreements and obligations do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation. Following is a description of the entities that have issued bonds and the projects that have been financed with the proceeds and which are subject to use and occupancy agreements or lease agreements.

State Office Building Commission. The State Office Building Commission is authorized to issue revenue bonds to finance or refinance the acquiring, construction and equipping of buildings, structures, improvements or parking areas owned or leased by the State Office Building Commission or the State for the purpose of (a) housing the personnel or activities of State agencies or branches of State government; (b) providing transportation or parking for State employees or persons having business with State government; (c) providing a building, structure or improvement for the custody, care, confinement or treatment of committed persons under the supervision of the State Department of Correction; (d) providing a building, structure or improvement for the care maintenance or treatment of persons with mental or addictive disorders; or (e) providing regional health facilities.

Pursuant to this general authority, as well as specific findings of need by the General Assembly, the State Office Building Commission has issued its revenue bonds to finance or refinance various facility projects, described below:

Facility	Project Description
Indiana Government Center Parking Facilities	Acquisition, constructing and equipping of two new multi-level parking facilities
Indiana Government Center South	Acquisition, constructing and equipping of new State office building facility
Indiana Government Center North	Renovation of and construction of improvements to original State office building facility
Wabash Valley Correctional Facility; Miami Correctional Facility, Phase I and II; Rockville Correctional Facility; and Pendleton Juvenile Correctional Facility	Acquisition, construction and equipping of men's maximum security correctional facility and medium security correctional facilities; acquisition, construction, renovation and equipping of women's correctional facility; and acquisition, construction and equipping of juvenile correctional facility

To see a listing by bond series of the outstanding indebtedness of the State Office Building Commission, see "Table VI-1 – Schedule of Long Term Debt Obligations Payable from Possible State Appropriations."

The State Office Building Commission's revenue bonds are payable, or upon completion of the construction of the facility (or portions thereof) will be payable, principally from rental payments on such facility (or portions thereof) to be made by the State Department of Administration pursuant to a use and occupancy agreement for such facility (or portions thereof). The term of each such use and occupancy agreement is coexistent with the State's biennial budget, but is renewable for additional two-year terms. Rental payments by the Department of Administration with respect to each such facility are and will be subject to and dependent upon appropriations being made for such purpose by the General Assembly.

The State Office Building Commission also provides short-term, or construction, financing for certain facilities through issuance and sale "Hoosier Notes." For a more detailed description of the Commission's Hoosier Notes program, see "STATE INDEBTEDNESS—Authorized but Unissued Debt."

Transportation Finance Authority—Highway Financing. The Indiana Transportation Finance Authority (the "TFA") was established in 1988 under Indiana Code 8-9.5-8, as the successor to the Indiana Toll Finance Authority. The TFA is a body corporate and politic separate from the State. When the General Assembly established the TFA, it enacted Indiana Code 8-14.5, which authorizes the TFA to: (a) undertake projects to construct, acquire, reconstruct, improve and extend the State's highways, bridges, streets and roads; (b) lease such projects to the Indiana Department of Transportation, formerly the Indiana Department of Highways; and (c) issue revenue bonds to finance or refinance such projects.

Pursuant to this authority, the TFA has issued its revenue bonds to finance the construction, acquisition, reconstruction, improvement and extension of the State's highways, bridges, streets and roads throughout Indiana. To see a listing by bond series of the indebtedness of the TFA for Highway Financing, see "Table VI-1—Schedule of Long Term Debt Obligations Payable From Possible State Appropriations."

The TFA's bonds are corporate obligations of the TFA and are payable, as to both principal and interest, solely from revenues derived from leases with the Department of Transportation, bond proceeds and investment earnings on bond proceeds. The TFA has no taxing power, and any indebtedness incurred by the TFA does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation. Debt service on the bonds is payable primarily from rental payments to be received from the Department of Transportation pursuant to certain master lease agreements between the TFA and the Department of Transportation, as supplemented. The term of each such master lease agreement is coextensive with the State's biennial budget, but is renewable for additional terms of two years, up to a maximum aggregate lease term of 25 years. Lease rentals under each such master lease agreement are payable solely from biennial appropriations for the actual use or availability for use of projects financed by the TFA, with payment commencing no earlier than the commencement of such use or availability for use.

Transportation Finance Authority - Aviation Financing. In 1991, the General Assembly enacted Indiana Code 8-21-12, which authorizes the TFA to finance improvements related to an airport or aviation related property or facilities, including the acquisition of real estate, by borrowing money and issuing revenue bonds from time to time. The authorizing legislation defines "aviation related property or facilities" as those properties or facilities that are utilized by a lessee, or a lessee's assigns, who provides services or accommodations (a) for scheduled or unscheduled air carriers and air taxis and their passengers, air cargo operations and related ground transportation facilities, (b) for fixed based operations, (c) for general aviation or military users and (d) for aviation maintenance and repair facilities.

Airport Facilities. Pursuant to this authority, the TFA issued its revenue bonds to finance a portion of the costs of constructing and equipping improvements related to an airport and aviation related property and facilities at the Indianapolis International Airport (the "Airport Facilities"). At present, United Air Lines, Inc. is using the Airport Facilities as a major aircraft maintenance and overhaul facility. The TFA expects that United will continue to use the Airport Facilities for aircraft maintenance operations. To see a listing by bond series of the indebtedness of the TFA for Airport Facilities, see "Table VI-1—Schedule of Long Term Debt Obligations Payable From Possible State Appropriations."

The TFA has acquired an undivided ownership interest as a tenant in common in a leasehold estate in the Airport Facilities and certain real property on which the Airport Facilities are situated, and the TFA has leased its undivided ownership interest therein to the Indianapolis Airport Authority pursuant to a lease agreement between the TFA, as lessor, and the Indianapolis Airport Authority, as lessee (the "Airport Facilities Lease"). The Airport Facilities Bonds are special, limited obligations of the TFA, payable solely from and secured exclusively by the TFA's pledge of a trust estate, including the rental payments to be received by the TFA from the Indianapolis Airport Authority under the Airport Facilities Lease for the payment of the principal of and interest on the Airport Facilities Bonds. Such rentals are payable by the Indianapolis Airport Authority for the use or availability for use of the Airport Facilities, solely from funds appropriated by the General Assembly and available to pay such rentals.

The Airport Facilities Bonds are not an obligation, directly or indirectly, of United Air Lines, Inc.

Aviation Technology Center. Also pursuant to the authority granted the TFA for Aviation Financing, the Authority issued Aviation Technology Center Lease Revenue Bonds, Series A (the "Aviation Technology Center Bonds") in December 1992. To see a listing of the indebtedness of the TFA for the Aviation Technology Center, see "Table VI-1—Schedule of Long Term Debt Obligations Payable From Possible State Appropriations."

The proceeds from the Aviation Technology Center Bonds were applied to finance the costs of constructing and equipping a new aviation technology center (the "Aviation Technology Center") at Indianapolis International Airport. Vincennes University is operating the Aviation Technology Center, and Vincennes University and Purdue University are currently conducting classes for training individuals for employment in aviation technology and other fields related to aircraft, aircraft maintenance and airport operations.

The TFA has acquired an interest in the Aviation Technology Center and certain real property on which the Aviation Technology Center is situated, and the TFA has leased its interest to the Indianapolis Airport Authority pursuant to a Lease Agreement between the TFA, as lessor, and the Indianapolis Airport Authority, as lessee (the "Aviation Technology Center Lease"). The Aviation Technology Center Bonds are special, limited obligations of the TFA, payable solely from and secured exclusively by the TFA's pledge of a trust estate, including the rental payments to be received by the TFA from the Indianapolis Airport Authority under the Aviation Technology Center Lease. Such rentals are payable by the Indianapolis Airport Authority for the use or availability for use of the Aviation Technology Center, solely from funds appropriated by the General Assembly and available to pay such rentals.

The Aviation Technology Center Bonds do not constitute an indebtedness, liability or loan of the credit of the Indianapolis Airport Authority, the State or any political subdivision thereof within the meaning or application of any constitutional provision or limitation, or a pledge of the faith, credit or taxing power of the Indianapolis Airport

Authority, the State or any political subdivision thereof. The Aviation Technology Center Bonds are not an obligation, directly or indirectly, of Vincennes University.

For a description of other powers and responsibilities of the TFA, including its authority to issue other debt, see "STATE INDEBTEDNESS—Contingent Obligations—Transportation Finance Authority—Toll Road Financing."

Recreational Development Commission. The Indiana Recreational Development Commission (the "Recreation Commission") was created in 1973 by Indiana Code 14-14-1 and is responsible for the acquisition, construction, improvement, operation and maintenance of public recreational facilities and for facilitating, supporting and promoting the development and use of parks of the State. Pursuant to Indiana Code 14-14-1-21, the Recreation Commission and the State Department of Natural Resources (the "DNR") may enter into agreements setting forth the terms and conditions for the use of park improvements by the DNR and the sums to be paid by the DNR for such use.

Pursuant to this authority, the Recreation Commission issued its Park Revenue Bonds to finance and refinance the costs of acquisition, construction, renovation, improvement and equipping of various facilities for public parks in the State (the "Park Projects"). To see a listing by bond series of the indebtedness of the Recreation Commission for Park Projects, see "Table VI-1 – Schedule of Long Term Debt Obligations Payable From Possible State Appropriations."

The Park Revenue Bonds are limited obligations of the Recreation Commission, payable solely from certain revenues and funds of the Recreation Commission pledged for such payment, including the net revenues from the Park Projects. These net revenues include primarily rental payments to be received by the Recreation Commission from the DNR for the DNR's use of the Park Projects under a master use and occupancy agreement, as supplemented by a supplemental agreement for each of the Park Projects. The term of the master use and occupancy agreement is coextensive with the State's biennial budget, but is renewable for additional two-year terms. Rental payments under the master use and occupancy agreement are subject to and dependent upon appropriations by the General Assembly having been made and being available for such purpose. The Park Revenue Bonds do not constitute a debt of the State or any political subdivision thereof or a pledge of the faith and credit of the State or any political subdivision thereof within the meaning of any constitutional provision or limitation.

Indiana Bond Bank. The only bonds issued by the Indiana Bond Bank which are payable from possible State appropriations are the Series 1998B Refunding Bonds issued to refund the Special Program Bonds, Series 1991 A. The Bond Bank issued the Series 1991 B Bonds to finance construction of the State's Animal Disease and Diagnostic Laboratory at Purdue University, West Lafayette. The essential security for the bonds is lease rentals payable under a lease between the State of Indiana, acting by and through the Department of Administration, as tenant, and The Trustees of Purdue University, as landlord. To see a listing by bond series of the appropriation-backed indebtedness of the Indiana Bond Bank, see "Table VI-1 – Schedule of Long Term Debt Obligations Payable From Possible State Appropriations."

For a description of other powers and responsibilities of the Bond Bank, including its authority to issue other debt, see "STATE INDEBTEDNESS—Contingent Obligations—Indiana Bond Bank" and Table 10.

Debt Statement - Obligations Payable From Possible State Appropriations

Table VI-1 lists, by issuing agency, all long-term debt that is subject to possible State appropriations as of January 1, 2002.

Table VI-1
Schedule of Long Term Debt
Obligations Payable From Possible State Appropriations
(as of January 1, 2002)

Issuer/Series		Original Par Amount		Ending Balance 01/01/01		(Redeemed)/ Issued		Ending Balance 01/01/02
State Office Building Commission								
Government Center Parking Facilities								
Series 1990A	$	26,669,824	$	10,475,690	$	(671,077)	$	9,804,613
Series 1993A		42,410,000		33,335,000		(2,050,000)		31,285,000
Subtotal	$	69,079,824	$	43,810,690	$	(2,721,077)	$	41,089,613
Government Center North								
Series 1990B	$	77,123,542	$	32,492,747	$	(2,081,244)	$	30,411,503
Series 1993B		107,555,000		89,230,000		(4,145,000)		85,085,000
Subtotal	$	184,678,542	$	121,722,747	$	(6,226,244)	$	115,496,503
Government Center South								
Series 1990C	$	18,063,800	$	7,089,520	$	(453,430)	$	6,636,090
Series 1990D		110,675,000		53,710,000		0		53,710,000
Series 1993C		28,440,000		9,095,000		(420,000)		8,675,000
Series 2000B		43,400,000		43,400,000		(700,000)		42,700,000
Subtotal	$	200,578,800	$	113,294,520	$	(1,573,430)	$	111,721,090
Correctional Facilities								
Series 1995A	$	54,025,000	$	52,790,000	$	(455,000)	$	52,335,000
Series 1995B		47,975,000		45,475,000		(1,330,000)		44,145,000
Series 1998A		93,020,000		93,020,000		(2,450,000)		90,570,000
Series 1999A		96,785,000		94,020,000		(3,110,000)		90,910,000
Series 2000A		44,800,000		44,800,000		(1,600,000)		43,200,000
Series 2001A		66,600,000		0		66,600,000		66,600,000
Subtotal	$	403,205,000	$	330,105,000	$	57,655,000	$	387,760,000
TOTAL SOBC	**$**	**857,542,166**	**$**	**608,932,957**	**$**	**47,134,249**	**$**	**656,067,206**
Transportation Finance Authority								
Highway Revenue Bonds								
Series 1990A	$	72,498,391	$	38,011,897	$	(1,904,265)	$	36,107,632
Series 1992A		74,035,000		37,615,000		(2,330,000)		35,285,000
Series 1993A		193,531,298		152,711,298		(6,595,000)		146,116,298
Series 1996B		27,110,000		26,200,000		(250,000)		25,950,000
Series 1998A		175,360,000		175,360,000		(3,110,000)		172,250,000
Series 2000A		269,535,000		269,535,000		0		269,535,000
Subtotal	$	812,069,689	$	699,433,195	$	(14,189,265)	$	685,243,930
Airport Facilities Bonds								
Series 1992A	$	201,320,000	$	52,040,000	$	(5,640,000)	$	46,400,000
Series 1995A		29,720,000		27,585,000		(880,000)		26,705,000
Series 1996A		137,790,000		137,790,000		(745,000)		137,045,000
Subtotal	$	368,830,000	$	217,415,000	$	(7,265,000)	$	210,150,000
Aviation Technology Bonds								
Series 1992A	$	11,630,000	$	10,020,000	$	(320,000)	$	9,700,000
Subtotal	$	11,630,000	$	10,020,000	$	(320,000)	$	9,700,000
TOTAL ITFA	**$**	**1,192,529,689**	**$**	**926,868,195**	**$**	**(21,774,265**	**$**	**905,093,930**
Recreational Development Commission								
Series 1994	$	19,285,000	$	18,575,000	$	(275,000)	$	18,300,000
Series 1997		6,600,000		5,995,000		(215,000)		5,780,000
Subtotal	$	25,885,000	$	24,570,000	$	490,000	$	24,080,000
TOTAL IRDC	**$**	**25,885,000**	**$**	**24,570,000**	**$**	**(490,000)**	**$**	**24,080,000**
Animal Disease & Diagnostic Laboratory								
Series 1998B	$	10,830,000	$	8,970,000	$	(325,000)	$	8,645,000
TOTAL ADDL	**$**	**10,830,000**	**$**	**8,970,000**	**$**	**(325,000)**	**$**	**8,645,000**
TOTAL ALL BONDS	**$**	**2,086,786,855**	**$**	**1,569,341,152**	**$**	**24,544,984**	**$**	**1,593,886,136**

Source: State Budget Agency

Debt Service Schedule - Obligations Payable From Possible State Appropriations

Table VI-2 lists, all principal and interest payments payable from possible State appropriations (not including debt that has been defeased)

Table VI-2
Scheduled Principal and Interest Payments
Payable From Possible State Appropriations

Issuer/Series	FY 02	FY 03	FY 04	FY 05	Thereafter
State Office Building					
Government Center Parking					
Series 1990A	1,948,050	1,948,050	1,948,050	1,948,050	16,713,675
Series 1993A	3,691,946	3,689,389	3,689,981	3,683,284	30,502,183
Subtotal	5,639,996	5,637,439	5,638,031	5,631,334	47,215,858
Government Center North					
Series 1990B	6,041,880	6,041,880	6,041,880	6,041,880	51,841,680
Series 1993B	8,611,016	8,603,809	8,597,976	8,592,396	93,921,911
Subtotal	14,652,896	14,645,689	14,639,856	14,634,276	145,763,591
Government Center South					
Series 1990C	1,317,090	1,317,090	1,317,090	1,317,090	11,312,155
Series 1990D	3,705,990	3,705,990	3,705,990	3,705,990	69,252,595
Series 1993C	875,280	875,280	878,780	875,738	9,575,792
Series 2000B[(1)]	2,217,696	8,799,000	8,686,500	8,461,500	28,168,500
Subtotal	8,116,056	14,697,360	14,588,360	14,360,318	118,309,042
Correctional Facilities					
Series 1995A	3,326,769	3,320,028	3,321,861	3,322,248	86,586,863
Series 1995B	3,860,058	3,858,843	3,853,508	3,853,695	61,080,961
Series 1998A	6,903,551	8,574,151	8,572,990	8,560,298	102,146,062
Series 1999A	7,867,213	7,870,431	7,869,119	7,857,575	116,997,943
Series 2000A[(1)]	3,137,256	4,104,000	4,102,500	4,000,500	51,171,000
Series 2001A[(1)]	2,477,048	3,996,000	3,996,000	3,996,000	134,532,000
Subtotal	27,571,895	31,723,453	31,715,978	31,590,316	552,514,829
TOTAL SOBC	**55,980,843**	**66,703,941**	**66,582,225**	**66,216,244**	**863,803,320**
Transportation Finance					
Highway Revenue Bonds					
Series 1990A	6,150,288	6,150,288	6,150,288	6,150,288	50,200,773
Series 1992A	4,800,445	2,399,380	2,399,380	2,399,380	56,309,750
Series 1993A	13,845,448	13,853,698	13,848,263	13,858,773	202,992,686
Series 1996B	1,592,080	3,989,010	3,989,708	3,981,450	19,746,375
Series 1998A	12,111,765	12,098,890	12,108,846	12,088,328	232,873,214
Series 2000A	14,766,551	17,210,301	17,097,176	16,982,801	506,982,084
Subtotal	53,266,577	55,701,567	55,593,661	55,461,020	1,069,104,882
Airport Facilities Bonds					
Series 1992A	8,742,756	9,064,853	9,385,525	9,704,613	36,225,912
Series 1995A	2,376,240	2,420,893	2,469,868	2,512,723	33,073,276
Series 1996A	8,204,983	8,216,608	8,219,933	8,220,583	181,406,608
Subtotal	19,323,979	19,702,354	20,075,326	20,437,919	250,705,796
Aviation Technology Bonds					
Series 1992A	955,375	955,945	955,000	957,500	12,444,575
Subtotal	955,375	955,945	955,000	957,500	12,444,575
TOTAL ITFA	**73,545,931**	**76,359,866**	**76,623,987**	**76,856,439**	**1,332,255,253**
Recreational Development Commission					
Series 1994	1,380,070	1,419,395	1,460,203	1,492,435	26,725,326
Series 1997	526,043	526,030	525,333	523,869	7,263,365
Subtotal	1,906,113	1,945,425	1,985,536	2,016,304	33,988,691
TOTAL IRDC	**1,906,113**	**1,945,425**	**1,985,536**	**2,016,304**	**33,988,691**
Animal Disease & Diagnostic Laboratory					
Series 1998B	1,040,638	1,042,894	1,043,475	1,042,434	6,779,669
TOTAL ADDL	**1,040,638**	**1,042,894**	**1,043,475**	**1,042,434**	**6,779,669**
TOTAL BONDS	**132,473,525**	**146,052,126**	**146,235,223**	**146,131,421**	**2,236,826,933**

(1) Debt service on variable rate debt is determined by actual rates through January 1, 2002 and the interest rate cap of 6% for remaining years.

Source: State Budget Agency

Debt Ratios

Historically, Indiana's debt burden has remained well below the national average and compares favorably with its regional peers. At $261, the State's net tax-supported debt per capita ranks in the bottom quintile, approximately 42nd among the states. According to Moody's 2001 State Debt Medians, the median per capita debt for all the states was about $541 and the mean was $820. At 0.9%, Indiana has the lowest reported debt as a percent of personal income in the region and ranks approximately 45th among all the states. According to Moody's 2001 State Debt Medians, the median percentage for all the states was about 2.1% and the mean was about 3%. Even with the issuance of new debt authorized by the General Assembly, the State expects to retain its low ranking among the states for net tax-supported debt. Governor O'Bannon has directed the creation of a comprehensive debt management plan to help insure that debt will continue to be issued and managed in a prudent manner. The ratios of outstanding debt subject to possible state appropriation to population and personal income for the past eight years are reflected in the Table VI-3 shown below.

Table VI-3
Ratios of Outstanding Debt Subject to Possible Appropriation to Population and Personal Income

Fiscal Year	Population	Personal Income(1)	Outstanding Debt Subject to Appropriation	Debt/Capita	Debt/Income
1993	5,700,243	$112,701	$ 1,001,051,854	$175	0.9%
1994	5,741,540	119,665	1,030,787,646	179	0.9
1995	5,787,839	125,804	1,036,962,646	179	0.8
1996	5,828,090	131,906	1,119,537,646	192	0.8
1997	5,864,105	138,415	1,116,717,640	190	0.8
1998	5,907,617	141,650	1,240,092,643	210	0.9
1999	5,942,901	146,900	1,228,372,647	207	0.8
2000	6,080,485	164,238	1,540,241,136	253	1.0
2001	6,114,745(2)	169,359(3)	1,593,886,136	261	0.9

(1) Personal Income is expressed in millions of dollars.
(2) July 1, 2001 Census Estimate
(3) 2001, Second Quarter
(4) Debt outstanding on January 1, 2002

Source: United States Bureau of Census for population, United States Department of Commerce, Bureau of Economic Analysis for personal income; and State Budget Agency for outstanding debt.

Authorized but Unissued Debt

The 1997 General Assembly authorized the State Office Building Commission to issue additional bonds to finance: (1) a special needs facility to be converted from an existing State mental hospital near New Castle, Indiana (construction has commenced on the New Castle Correctional Facility and it is expected to be available for use and occupancy in Spring 2002); and (2) a new State Museum in Indianapolis. (Construction has commenced on the Museum. It is expected to be available for use and occupancy in the Summer of 2002.) The Commission is providing short-term, or construction, financing for these facilities through issuance and sale of "Hoosier Notes—a tax-exempt commercial paper program." Currently, the Commission is authorized to issue up to $250 million in Hoosier Notes. As of January 25, 2002, $213.0 million of Hoosier Notes were outstanding. The type, amount and timing of any additional bonds to refinance additional amounts of Hoosier Notes are subject to a number of conditions that cannot be predicted at present, including architectural and engineering work, the level of investment rates, conditions in the credit markets, costs and progress of construction and the financial condition of the State.

The 1999 General Assembly authorized the Commission to issue additional bonds to finance construction of a replacement mental health facility in Evansville, Indiana. The Commission is in the initial stages of construction of the Evansville facility and anticipates completion in the fourth quarter of 2002. The Commission is also providing short-term, or construction, financing for these facilities through issuance and sale of Hoosier Notes.

The 2001 General Assembly authorized the Commission to issue bonds to finance three (3) regional health centers. The Commission is in the initial stages of planning for such facilities and has not yet established a construction time line. An appropriation was made in the approximate amount of $26,000,000 which is available to either make lease rental payments on such facilities when complete or to fund construction of such facilities.

In 1997, the General Assembly authorized the TFA to issue bonds to finance additional State highway construction projects through the Crossroads 2000 Program. The TFA has approximately $300,000,000 in additional bonding capacity and expects to issue additional bonds in early 2003..

Contingent Obligations

Certain State entities, including the Indiana Transportation Finance Authority, Indiana Bond Bank, and the Indiana Development Finance Authority, have issued obligations that, in certain circumstances, may include payment of State general funds. Such payments, if needed, are not mandatory and no one may compel the General Assembly to appropriate moneys to make them. The leases and other obligations of such entities do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

Transportation Finance Authority - Toll Road Financing. The TFA and its predecessors have issued revenue bonds ("Toll Road Bonds") to finance and refinance the construction and improvement of the 156-mile East-West toll road (the "Toll Road") in northern Indiana, which links the Chicago Skyway and the Ohio Turnpike. To see a listing by bond series of the indebtedness of the TFA for Toll Road Financing, see "STATE INDEBTEDNESS—Debt Statement—Contingent Obligations."

The Indiana Department of Transportation has entered into a lease agreement for the Toll Road (the "Toll Road Lease") with the TFA. The Toll Road Lease is automatically renewable every two years unless terminated by written notice of one party to the other not less than six months prior to the end of a term. The TFA may also terminate the Toll Road Lease at any time upon 15 days' written notice if, in the judgment of the TFA, the Department of Transportation is not complying with the Toll Road Lease.

Pursuant to the Toll Road Lease, the operating budget of the Toll Road is controlled by the Department of Transportation, and the Department is obligated to make all necessary repairs, renewals, replacements and improvements to the Toll Road out of tolls and other revenues collected by the Department and deposited with the trustee under the Toll Road Lease. The Department is further obligated to fix and collect tolls to meet the requirements of the Toll Road Lease: (a) operating expenses; (b) rent to the TFA (for payment of debt service on Toll Road Bonds); and (c) expenses of major repairs, improvements and equipment. The base rent is subject to increase if debt service increases as a result of the issuance of additional Toll Road Bonds. Any excess revenues collected by the Department are payable to the TFA as additional rent.

In the event Toll Road revenues are insufficient in any year to meet the requirements of the Toll Road Lease, the Department of Transportation is obligated under the Toll Road Lease to take steps to remedy the insufficiency, including increasing toll rates and reducing operating expenses. If such measures are inadequate, the Department is required, within 30 days, to report the amount of the insufficiency to, and seek the approval of, the State Budget Agency for a request to the General Assembly for an appropriation to the extent of such insufficiency. To date, no request for an appropriation for payments or other requirements under the Toll Road Lease has been made. Under the Toll Road Lease, the Department is unconditionally obligated to pay the rent during each term from legally available funds, but is not obligated to pay rent for any subsequent term unless the Toll Road Lease is renewed and extended. The Department's obligation to pay rent is not limited to Toll Road Lease revenues but, to the extent that the Department can legally obligate itself to do so, extends to other funds of, or obtainable by, the Department and legally available from time to time for expenditures in connection with the operation of the Toll Road. Nothing in the Toll Road Lease or in Indiana Code 8-9.5-8 or 8-15 creates a debt or an obligation that requires the State to make any appropriations to or for the use of the TFA or the Department.

For a description of other powers and responsibilities of the TFA, including its authority to issue other debt, see "STATE INDEBTEDNESS—Obligations Payable from Possible State Appropriations—Transportation Finance Authority-Highway Financing" and "Indiana Transportation Finance Authority-Aviation Financing."

Indiana Bond Bank. The Indiana Bond Bank (the "Bond Bank"), a body corporate and politic, was created in 1984 pursuant to Indiana Code 5-1.5. The Bond Bank is not a State agency and is separate from the State in both its corporate and sovereign capacity. The Bond Bank has no taxing power. The purpose of the Bond Bank is to buy and sell securities and to make loans to political subdivisions of the State and other qualified entities as defined in Indiana Code 5-1.5-1-8. The Bond Bank is empowered to issue bonds or notes which are payable solely from revenues and funds that are specifically allocated for such purpose. Pursuant to Indiana Code 5-1.5-5, to assure maintenance of a debt service reserve in any reserve fund required for Bond Bank bonds or notes, the General Assembly may, but is under no obligation to, appropriate to the Bond Bank for deposit in one or more of such funds the sum that is necessary to restore that fund to its required debt service reserve. If at the end of any Fiscal Year the amount in any reserve fund exceeds the required debt service reserve, any amount representing earnings or income received on account of any money appropriated to the reserve fund that exceeds the expenses of the Bond Bank for that year may be transferred to the General Fund.

Bonds issued by the Bond Bank do not constitute a debt, liability or loan of the credit of the State or any political subdivision thereof under the State constitution. Particular sources are designated for the payment of and security of bonds issued by the Bond Bank.

By statute, the total amount of bonds and notes which the Bond Bank may have outstanding at any one time (except bonds or notes issued to fund or refund bonds or notes) is currently limited by statute to $1.0 billion plus (a) up to $200.0 million for certain qualified entities that operate as rural electric membership corporations or as corporations engaged in the generation and transmission of electric energy and (b) up to $30.0 million for certain qualified entities that operate as telephone cooperative corporations. However, the foregoing limitations do not apply to bonds or notes or other obligations not secured by a reserve fund that is subject to Indiana Code 5-1.5-5.

As of January 1, 2002, the Bond Bank had $1,858,729,395 in bonds and notes outstanding, including $189,425,000 in outstanding bonds that are eligible for reserve fund replacement, with an aggregate reserve fund requirement for such bonds of $47,382,389. To see a listing by bond series of the outstanding Bond Bank bonds that are eligible for reserve fund replacement see "STATE INDEBTEDNESS—Debt Statement-Contingent Obligations." As of January 1, 2002, all borrowers from the Bond Bank were current in their payments and no appropriation has been requested or required to maintain the debt service reserve funds at their required levels.

Development Finance Authority. The Indiana Development Finance Authority (the "Development Finance Authority"), a body politic and corporate, was established in 1990 under Indiana Code 4-4-11 as successor to the Indiana Employment Development Commission, Indiana Agricultural Development Corporation and Indiana Export Finance Authority. The Development Finance Authority is not a State agency, but an independent instrumentality of the State exercising essential public functions. The public purposes of the Development Finance Authority are to: (a) promote opportunities for gainful employment and business opportunities by the promotion and development of industrial development projects, rural development projects, mining operations, international exports and agricultural operations; (b) promote educational enrichment (including cultural, intellectual, scientific or artistic opportunities) by the promotion and development of educational facility projects; (c) promote affordable farm credit and agricultural loan financing for farming and agricultural enterprises; (d) prevent and remediate environmental pollution by the promotion and development of industrial development projects; and (e) promote affordable childcare financing.

The Development Finance Authority is permitted by law to issue conduit and certain other types of revenue bonds to finance projects that serve these public purposes. Except as described below, the Development Finance Authority's revenue bonds are payable solely from revenues of the Development Finance Authority specifically pledged thereto. The bonds are not in any respect a general obligation of the Development Finance Authority or the State, nor are they payable in any manner from revenues raised by taxation. The Development Finance Authority has no power to levy taxes.

Pursuant to this authority, the Development Finance Authoirty issued its Taxable Economic Development Bonds, Series 1995 (Steel Dynamics, Inc. Project) (the "Steel Dynamics Bonds"), secured in part by a debt service reserve fund established exclusively for the Steel Dynamics Bonds. The Authority next issued its Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1996 (Qualitech Steel Corporation Project) (the

"Qualitech Bonds"), secured in part by a debt service reserve fund established exclusively for the Qualitech Bonds. Finally, the Development Finance Authority issued its Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1998 (Heartland Steel, Inc. Project) (the "Heartland Steel Bonds") secured in part by a debt service reserve fund established exclusively for the Heartland Steel Bonds. To see a listing by bond series of the outstanding Development Finance Authority bonds that are eligible for reserve fund replacement see Table VI-4 "Schedule of Long Term Debt-Contingent Obligations" shown below.

On March 22, 1999, Qualitech Steel Corporation, the corporation whose revenues are the primary source of repayment for the Qualitech Bonds, filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code. The Qualitech Bonds remain current. On or about August 26, 1999, substantially all of Qualitech Steel Corporation's assets were sold with court approval to designees of Qualitech's pre-petition secured lenders. Presently the debt service reserve fund remains fully funded and the biennial budget bill includes sufficient funds to pay the Qualitech bond payments through the '01-'03 biennium. On or about January 31, 2001, Qualitech ceased operations and permanently laid off the majority of its employees.

On January 24, 2001, Heartland Steel Corporation, the corporation whose revenues are the primary source of repayment for the Heartland Steel Bonds, filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code. The plant was sold in July 2001, and a plan was confirmed in 2001. The Heartland Steel Bonds remain current and the biennial budget bill provides $1,000,000 in additional funding to supplement bond payments for the Heartland Steel Bonds. The new company is operating and currently employs approximately 180 people at the facility.

The Development Finance Authority has contractually agreed that, if, after an unreimbursed transfer from the debt service reserve fund for the Steel Dynamics Bonds, the Qualitech Bonds or the Heartland Steel Bonds, as applicable, such debt service reserve fund is not fully funded, the Development Finance Authority will seek an appropriation from the General Assembly to replenish such debt service reserve fund. However, the General Assembly is under no obligation to make any appropriation to replenish any such debt service reserve fund.

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Debt Statement - Contingent Obligations

Table VI-4 lists the long term debt classified as contingent obligations that was outstanding on January 1, 2002. Debt classified as a contingent obligation is debt for which the State has agreed to replenish a debt service reserve fund or seek an appropriation from the General Assembly to provide funds to meet certain obligations. See “STATE INDEBTEDNESS—Contingent Obligations.”

Table VI-4
Schedule of Long Term Debt
Contingent Obligations
(as of January 1, 2002)

Issuer/Series	Original Par Amount	Ending Balance 1/01/01	(Redeemed)/ Issued	Ending Balance 1/01/02
Transportation Finance Authority				
Toll Road Bonds				
Series 1985	$ 256,970,000	$ 26,200,000	$ -	$ 26,200,000
Series 1987	184,745,000	46,295,000	(1,955,000)	44,340,000
Series 1993	76,075,000	47,770,000	(8,595,000)	39,175,000
Series 1996	134,795,000	132,710,000	(620,000)	132,090,000
ITFA Total	**$ 652,585,000**	**$ 252,975,000**	**$ (11,170,000)**	**$ 241,805,000**
Indiana Bond Bank				
Special Program Pool				
Series 1992A	$ 21,000,000	$ 16,045,000	$ (805,000)	$ 15,240,000
Series 1993A	7,975,000	6,705,000	(265,000)	6,440,000
Series 1993B	14,915,000	13,805,000	(750,000)	13,055,000
Series 1994B	8,475,000	7,170,000	(365,000)	6,805,000
Series 1995A	4,540,000	4,155,000	(315,000)	3,840,000
Series 1995B	13,280,000	12,080,000	(340,000)	11,740,000
Series 1997A	6,295,000	6,020,000	(110,000)	5,910,000
Series 1997B	22,855,000	22,855,000	(740,000)	22,115,000
Series 1997C	5,010,000	5,010,000	0	5,010,000
Series 1998A	6,485,000	6,485,000	(215,000)	6,270,000
Series 2000A	31,495,000	31,495,000	0	31,495,000
Series 2000A	32,860,000	27,860,000	(3,750,000)	24,110,000
Series 2001A (Refunding)	20,840,000	20,840,000	0	20,840,000
Series 2001A	7,055,000	0	7,055,000	7,055,000
Series 2001B	9,500,000	0	9,500,000	9,500,000
IBB Total	**$ 212,580,000**	**$ 180,525,000**	**$ 8,900,000**	**$ 189,425,000**
Indiana Development Finance Authority				
Qualitech Steel	$ 33,100,000	$ 28,700,000	$ (1,200,000)	$ 27,500,000
Steel Dynamics	21,400,000	17,600,000	0	17,600,000
Heartland Steel	13,800,000	12,300,000	(400,000)	11,900,000
IDFA Total	**$ 68,300,000**	**$ 58,600,000**	**$ (1,600,000)**	**$ 57,000,000**
TOTAL – ALL BONDS	**$ 916,910,000**	**$ 492,100,000**	**$ (20,270,000)**	**$ 471,830,000**

Source: State Budget Agency

Other Entities Issuing Debt

The following entities, although created or designated by the State, are authorities, instrumentalities, commissions, separate bodies corporate and politic, or not-for-profit corporations separate from the State. The entities may incur debt while exercising essential governmental or public functions. Any debt incurred by the entities is secured only by specific revenues and sources pledged at the time the debt is incurred and is neither direct nor indirect debt of the State. The debts do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

Entity	Statute	Purpose of Debt Issuance
Board for Depositories	I.C. 5-13-12 Recodified 1987	Provide guarantee for industrial development obligation or credit enhancement for Indiana enterprises
Indiana Educational Facilities Authority	I.C. 20-1263 Established 1979	Provide funds for projects to be leased to private institutions of higher learning
Indiana Health Facility Financing Authority [1]	I.C. 5-1-16 Established 1983	Provide health facilities with means for financing equipment and property acquisitions
Indiana Housing Finance Authority [2]	I.C. 5-20-1 Established 1978	Provide funds for construction or mortgage loans for federally assisted multi-family or for low and moderate income residential housing
Indiana Political Subdivision Risk Management Commission	I.C. 27-1-29 Established 1986	Provide funds to aid political subdivisions protection against liabilities
Indiana Port Commission	I.C. 8-10-1 Established 1961	Provide funds to construct, maintain and operate public ports on Lake Michigan or Ohio or Wabash Rivers
Indiana Secondary Market for Secondary Loans, Inc.[3]	I.C. 20-12-21.2 Authorized 1980	Provide funds for a secondary market for education loans
Intelenet Commission	I.C. 5-21-1 Established 1986	Provide funds for a State-wide integrated telecommunications network
Indiana State Fair Commission	I.C. 15-1.5-1 Established 1990	Provide funds for construction, repair and refurbishing of State fairgrounds
Indiana White River State Park Development Commission	I.C. 14-3-1 Established 1979	Provide funds for establishment and development of park, exposition, educational, athletic and recreational projects on the White River in Marion County

[1] Originally the Indiana Hospital Equipment Financing Authority.
[2] Authorized to issue bonds, similar to the Indiana Bond Bank, that would be eligible for General Assembly appropriations to replenish the debt service reserve funds. The Indiana Housing Finance Authority has not issued and does not currently expect to issue any such bonds.
[3] A not-for-profit corporation authorized by the General Assembly.

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VII.
STATE RETIREMENT SYSTEMS

There are four major State retirement systems: the Public Employees' Retirement Fund, the Indiana State Teachers' Retirement Fund, the State Judges' Retirement System and the State Police Fund. In addition, the State maintains and appropriates moneys to several other retirement plans. Under Indiana law, each board administering a retirement system is required to periodically make an actuarial investigation into the mortality, service and compensation or salary experience of the members of the system and their beneficiaries and make a valuation of the assets and liabilities of the retirement benefits in any year in which the retirement fund law is amended in any manner which affects the benefits payable. See "Exhibit A-1, General Purpose Financial Statements of the State of Indiana for the Fiscal Year Ended June 30, 2001—Employee Retirement Systems and Plans."

In 2000, the Indiana General Assembly restructured certain governance provisions for the Public Employees' Retirement Fund and the Teachers' Retirement Fund. Each Fund is now a separate body corporate politic. The legislation was designed to give the Funds the resources necessary to most efficiently and effectively implement investment strategies and administer benefits.

Public Employees' Retirement Fund

The Public Employees' Retirement Fund ("PERF") has been in existence since 1945 to provide retirement, disability and survivor benefits for most State and local government employees. With assets of more than $8,559.1 million on June 30, 2000, PERF is the State's largest pension fund and has no unfunded liability. PERF has management responsibility for total assets of $11,502.7 million, which includes pension assets of local government units, the Judges' Retirement System, Legislators' Retirement System, Prosecutors' Retirement System, municipal police and fire units and State conservation and excise officials. On June 30, 2000, there were 204,286 active and retired members participating in PERF from State and local government.

State employees constitute approximately 36% of the non-retired PERF membership; the remainder of the membership is composed of employees of other participating political subdivisions. The State is financially responsible for making contributions for State employee members only. Funding for PERF is included as part of the expenditures for fringe benefits by each State agency.

All State employees and all employees of participating political subdivisions in covered positions, including elected and appointed officials, are required to join PERF upon employment. The PERF benefit consists of two parts: (a) a pension formula benefit based upon years of service and final average salary and (b) an additional benefit based upon the member's annuity savings account balance, derived from employee contributions. The employee contribution rate is defined by law as 3.0% of each employee's salary. Effective July 1, 1986, the State "picked up" and pays the employee contributions for State employees to PERF as part of a wage adjustment.

Eligibility for retirement benefits is determined by age and creditable service. An employee is eligible for normal retirement at age 65 if he or she has ten or more years of creditable service under PERF. An employee may qualify for early retirement with a reduced pension if he or she is between the ages of 50 and 65 and has 15 or more years of creditable service. An employee may qualify for early retirement with full benefits at age 60 with 15 or more years of creditable service or at age 55 with the employee's age plus years of creditable service equaling 85 or more (the "Rule of 85"). Benefit determination is based on the average of the five highest annual earnings, years of service and age at retirement and the specific retirement option selected by each member.

PERF includes benefits for a member who becomes disabled while receiving pay in a PERF-covered position if the member (a) has five or more years of creditable service under PERF and (b) qualifies for Social Security disability benefits. The benefits will be computed using only the years of creditable service worked to the date of disability with no reduction for early retirement.

If a member who has 15 or more years of creditable service dies in service, his or her spouse or dependent beneficiary may be entitled to survivor benefits. If a retired member dies, the designated beneficiary may receive benefits, depending on the option selected by that member.

A member who terminates employment prior to eligibility for retirement or disability benefits is entitled to the return of his or her contributions, plus interest. A member who terminates employment prior to eligibility for retirement or disability benefits, but with ten or more years of credited service, may also elect to receive a deferred vested benefit instead of a refund.

Contributions are made to PERF by the State and local units, paying normal cost and amortizing the unfunded accrued liability of each unit during periods established pursuant to statute. Contribution rates are set by the PERF Board of Trustees based on annual actuarial valuations**.** For 1999, 2000, and 2001 the State contribution rate was set at 5%, the lowest rate in over 10 years.

Table VII-1
Public Employees' Retirement Fund
History of Contribution Rates

Valuation Date	State Contribution Rate
July 1, 2001	5.0%
July 1, 2000	5.0%
July 1, 1999	5.0%
July 1, 1998	5.7%
July 1, 1997	6.6%
July 1, 1996*	6.6%
July 1, 1995*	6.3%
July 1, 1994	5.6%
July 1, 1993	6.2%
June 30, 1992	6.6%
June 30, 1991	7.0%
June 30, 1990	7.3%
June 30, 1989	7.8%

*These contribution rates reflect the normal retirement date as changed by statute to the "Rule of 85" and reflect changes in actuarial assumptions.

Source: Actuarial Valuation Report, Public Employees' Retirement Fund of Indiana, July 1, 2000.

As of July 1, 2000, the State-related portion of the PERF plan was actually overfunded by $258.9 million. As of June 30, 2000, the funds assets under PERF's control were allocated approximately 60% to equities and 40% to fixed income. The better-than-expected funded status of the plan can be attributed to greater than expected investment gains. The plan has achieved this overfunded status even though it incorporates conservative actuarial assumptions into the valuation process.

Table VII-2
PERF Actuarial Assumptions

- 7.25% Investment Return
- 5% Salary Increases
- 2% Retiree Cost-of-Living Benefit Increases
- 1983 GAM Mortality Tables
- Retirement rates based on PERF Experience Study 1991-1994
- Disability rates based on PERF Experience Study 1991-1994
- Turnover by age and service based on PERF Experience Study 1991-1994

Source: Actuarial Valuation Report, Public Employees' Retirement Fund of Indiana, July 1, 2000.

Table VII-3 summarizes the results of the actuarial valuations of the State-related portion of PERF on June 30, 1999 and June 30, 2000.

Table VII-3
Indiana State Public Employees' Retirement Fund

	June 30, 1999	June 30, 2000
Normal Cost	$ 73,931,188	$ 80,217,996
Accrued Liability (Non-retired)[1]	1,583,485,563	1,701,091,436
Unfunded (Overfunded) Accrued Liability (Non-retired)[1]	(245,098,880)	(258,926,582)
Actuarial Present Value of All Present Value of Vested Benefits	760,263,989	831,616,226
Non-retired Participant Assets[2]	1,828,584,443	1,960,018,018

Notes: [1] There is no Unfunded Accrued Liability for retired members' benefits.
[2] Actuarial Value.

Source: Actuarial Valuation Report, Public Employees' Retirement Fund of Indiana, June 30, 2000.

State Teachers' Retirement Fund

The Indiana State Teachers' Retirement Fund ("TRF") pays retirement benefits to public school teachers who reach a specific age or meet other eligibility qualifications. On June 30, 2000, TRF had 110,748 active and retired participants. Members of TRF receive benefits similar to those received by PERF members as described above and are also subject to the "Rule of 85" for eligibility purposes.

Moneys to pay retirement benefits were provided from State appropriations and separate contributions by the teachers to an Annuity Savings Account. Until July 1, 1995, the State portion of benefits was funded on a "pay as you go" cash basis. As a result, there accumulated a substantial unfunded accrued liability in the "old plan" as shown in Table 14 below.

Table VII-4
Indiana State Teachers' Retirement Fund

	June 30, 1999	
Accrued Liability	Old Plan	New Plan*
Retired	$ 3,659,118,423	$ 3,903,234
Non-retired	8,513,383,027	494,519,759
Total	12,172,501,450	498,422,993
Unfunded Accrued Liability		
Retired	$ 1,428,041,751	$ -
Non-retired	6,013,793,279	258,369,079
Total	$ 7,441,835,030	$ 258,369,079 **

	June 30, 2000	
Accrued Liability	Old Plan	New Plan*
Retired	$ 3,890,895,561	$ 8,679,114
Non-retired	8,518,379,657	697,111,111
Total	12,409,275,218	705,790,225
Unfunded Accrued Liability		
Retired	$ 1,380,424,751	$ -
Non-retired	5,818,961,181	337,632,726
Total	$ 7,199,385,932	$ 337,632,726 **

* The new plan is actuarially funded by local school districts.
** Total Unfunded Accrued Liability of the new plan is primarily attributable to the transfer of members (and their accrued liabilities) from the Pre-1995 Plan.

Source: Actuarial Valuation Report, Teachers' Retirement Fund, June 30, 1999 and June 30, 2000.

To aggressively address TRF's unfunded liability, the State and TRF Board have taken the following actions:

1. The State capped its Pension Benefit Obligation by shifting the obligation for all teachers hired after 1995 to local school districts and implementing a level percent of payroll current funding approach ("New Plan")
2. The New Plan is also responsible for the total cost of teachers transferring to another school district after 1995. As of June 30, 2000, this resulted in a shift of $337 million in liability from the Old Plan to the New Plan.
3. The TRF Board addressed the unfunded liability in the New Plan by increasing the required payroll contribution rate to the 9.0% rate recommended by the fund's actuaries.
4. The State created the Pension Stabilization Fund which will be used to supplement future General Fund appropriations for TRF liability. As of September 30, 2001 the Pension Stabilization Fund totaled over $1.8 billion. The Pension Stabilization Fund reduces the future fiscal burden for the State and has been funded by:
    - An initial transfer of $439.7 million in Fiscal 1996;
    - Permanent annual appropriations of $25 million from the State General Fund and $30 million from Lottery revenues since Fiscal 1996;
    - Additional appropriations of $500 million during Fiscal Years 1997-2001;
    - One-time transfer of $148.5 million in interest income in Fiscal 1999.

5. The State changed the State constitution to allow investment in equities, thereby increasing earnings potential for plan assets. As of June 30, 2000, 46% of the Fund's employer controlled assets were invested in equities. The independent, non-partisan, Indiana Fiscal Policy Institute, estimated that investing in equities had resulted in an additional $648 million in earnings to the Plan as of December 31, 1999.

The substantial changes to the old and new plans were designed to limit the growth in the annual State General Fund appropriation necessary to meet current obligations of such plans. An independent analysis of the plans done in December 1999 by The Indiana Fiscal Policy Institute, reports that the growth rate for future General Fund appropriations has been reduced from a projected growth rate of 9% per year to 3.1% per year following the restructuring. The financial condition of the Old Plan has improved steadily, with a 65% funded ratio as of June 30, 2000, up from 46% in 1997. The Unfunded Accrued Liability in the Old Plan actually declined in Fiscal 2000 by over $240 million, as illustrated in the following table.

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Table VII-5
Growth of Unfunded Liability in Teachers' Retirement Fund Closed, Pre-1995 Plan

June 30	Computed Actuarial Accrued Liability	Valuation Assets ($ in Millions)	Unfunded Actuarial Accrued Liability (UAAL)	% Change from Previous Year*
1975	$1.570	$ 312	$1.258	
1977	2.145	375	1.770	20.3%
1979	2.582	466	2.116	9.8%
1980	2.843	539	2.304	8.9%
1981	2.957	601	2.356	2.3%
1983	3.338	765	2.573	4.6%
1985	4.023	1,073	2.950	7.3%
1987	4.837	1,401	3.436	8.2%
1989	6.205	1,707	4.498	15.5%
1991	7.182	2,161	5.021	5.8%
1992	7.949	2,376	5.573	11.0%
1993	8.508	2,592	5.916	6.2%
1994	9.087	2,809	6.279	6.1%
1995	9.675	2,984	6.691	6.6%
1996	10.283	3,242	7.041	5.2%
1997	10.868	3,678	7.190	2.1%
1998	11.481	4,130	7.351	2.2%
1999	12.173	4,731	7.442	1.2%
2000	12.409	5,210	7.199	(3.3%)

* Where a valuation year is skipped, the percentage change is divided by two to approximate the change over a two-year period.

Source: Actuarial Valuation Report, Teachers' Retirement Fund, June 30, 2000.

The actuaries acknowledge that the assumptions used to calculate the unfunded liability are more conservative than many public pension plans. Because the liability is calculated using these various assumptions, any changes to those assumptions could substantially impact the amount of the unfunded liability

Table VII-6
TRF Actuarial Assumptions

- 7.5% Investment Return
- 5.5% Salary Increases plus an additional Merit and/or Seniority increase ranging from 1.5% to 3% for those members with 5 to 40 years of service.
- 1983 GAM Mortality Tables
- Retirement rates based on TRF Experience Study 1991-1996*
- Disability rates based on TRF Experience Study 1991-1996*
- Turnover by age and service based on TRF Experience Study 1991-1996*

*A new TRF Experience Study must be completed every 5 years and is due to be completed in 2002.

Source: Actuarial Valuation Report, Teachers' Retirement Fund, June 30, 2000.

Indiana Judges' Retirement System

The Indiana Judges' Retirement System ("JRS") consists of two benefit plans that pay pensions, disability benefits and survivor benefits to judges. Benefits under each plan include retirement, disability and survivor provisions, all of which are tied to salaries and years of service.

Moneys to pay benefits are derived primarily from an appropriation from the State's General Fund, from court fees and from contributions by the judges equal to 6.0% of their salaries. JRS has historically not been funded by the State on an actuarial basis.

Table VII-7 summarizes the results of the actuarial valuation of JRS on July 1, 1999, and July 1, 2000.

Table VII-7
Indiana Judges' Retirement System

	July 1, 1999	July 1, 2000
Normal Cost[(1)]	$ 4,894,302	$ 4,627,745
Accrued Liability	176,301,145	182,447,802
Unfunded Accrued Liability	85,228,571	78,715,197
Valuation Assets[(2)]	$ 91,072,574	$ 103,732,605
Number of Members		
Active and Inactive	341	336
Terminated and Vested	18	17
Retired	221	228
Total	580	581

(1) Although normal cost is calculated by the actuaries, JRS is not funded on an actuarial basis. This amount represents the gross normal cost. Anticipated employee contributions of approximately $1.9 million in 1999 and $1.8 million in 2000 leave net employer normal cost of approximately $4.6 million in 2000.

(2) Actuarial Value.

Source: Actuarial Valuation, State of Indiana Judges' Retirement System, July 1, 1999 and 2000.

State Police Pension Trust

The State Police Pension Trust consists of two structures that provide retirement benefits to State police officers. The State makes contributions to the State Police Pension Trust from appropriations of General Fund and Motor Vehicle Highway Fund moneys. At present, members contribute and may borrow funds in an amount up to their contribution, subject to State Police Pension Advisory Board policies. Retirement benefits may not exceed one-half of either the member's highest salary in 36 consecutive months or a third year trooper's pay (depending upon the structure in which the member belongs), plus additions tied to years of service. Survivor and disability benefits may not exceed the basic pension amount.

The State Police Pension Trust is funded on an actuarial basis. The State Treasurer is custodian for such trust. Certain financial information about the State Police Pension Trust is also included in Exhibit A-1, General Purpose Financial Statements of the State of Indiana for the Fiscal Year Ended June 30, 2001.

Other State Plans

The State appropriates moneys to several other retirement plans.

The State maintains an Excise Police and Conservation Enforcement Officers' Retirement Plan. According to the actuarial valuation of the plan, as of July 1, 2000, the plan had a total annual cost (net of employee contributions and including amortization of the unfunded actuarial liability) of $1,717,593 and an unfunded actuarial liability of $11,903,897.

The PERF Board of Trustees administers a local police officers' and firefighters' pension and disability fund for local police officers and firefighters hired after April 30, 1977. Benefits for the members of this plan have been funded on an actuarial basis through contributions from cities and towns and from plan members.

The PERF Board of Trustees also administers a pension relief fund for those local police officers and firefighters hired before May 1, 1977. Benefits for the members of this plan have been funded on a "pay-as-you-go" basis, under which benefits are paid from current revenues provided by cities and towns and by plan members' contributions. Cities and towns receive pension relief funds from the State to reimburse them for a portion of benefit expenditures. To provide such pension relief, the State has dedicated a portion of the State's cigarette tax revenue, liquor tax revenue and certain surplus Hoosier Lottery and gaming revenues. In addition to those funding sources, the State authorized additional appropriations of $50.0 million during 1996 and $25.0 million each year of the 1997-1999 biennial budget. In 1999, the State dedicated another $20 million per year from the lottery proceeds (beyond the existing $10 million per year) to the pension relief fund. For the 2000 Calendar Year, $76.652 million was expended from the State's pension relief fund, and on December 31, 1999, the State's pension relief fund had a balance of $498.811million.

In 1989, the General Assembly established a legislators' retirement system consisting of a defined benefit plan and a defined contribution plan. Each of the plans is to be administered by the PERF Board. According to the actuarial valuation of the legislators' defined benefit plan, as of July 1, 2000, the plan had a total annual cost of $177,559, a cost per eligible active participant of $1,492 and an unfunded actuarial liability of $896,370.

The 1989 General Assembly also established a prosecuting attorneys' retirement fund, which is administered by the PERF Board. According to the actuarial valuation of the prosecuting attorneys' retirement fund, as of July 1, 2000, the fund had a total annual cost (net of employee contributions and including amortization of the unfunded actuarial liability) of $375,145 and an unfunded actuarial liability of $4,161,682.

Local Plans

Approximately 200 additional local governmental pension funds in the State do not receive direct contributions from the State. Although the State has set certain standards for some local pension funds, localities and members are solely responsible for contributions to the funds.

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VIII.
ECONOMIC AND DEMOGRAPHIC INFORMATION

General

Over the last decade, Indiana's economy has grown in size and diversity. With an estimated 1999 Gross State Product of more than $182.2 billion, Indiana's economy ranks as the 15th largest in the country in terms of the value of goods and services produced. After trailing the national growth rate during the 1980's, Indiana's economy has grown faster than the nation during the 1990's, with a Gross State Product growth rate of 64.5% compared to 63.1% for the U.S. From 1990 to 1999, Indiana's contribution to the national Gross Domestic Product increased by $71.4 billion, rising from 1.9% to 2.0% of total output. The State ranks in the top five nationally for producing items as diverse as pharmaceuticals, surgical supplies, aircraft engines and parts, compact discs, musical instruments, truck and bus bodies, electronic resistors and steel.

In 2000, Indiana's 2-year average for median household income was $41,011, 97% of the U.S. average, up from 90% in 1990. Indiana has averaged 1.5% annual growth in median income versus 0.9% for the U.S. over the last decade. Indiana's per capita income was $27,011 or 91% of the U.S. average in 2000.

Over the last year, Indiana has lost just over 50,000 jobs, reflecting a 1.7% decline in employment, versus a 0.8% decline for the U.S. However, Indiana's unemployment rate has remained below the U.S. average, ending the year at 5.0% versus 5.8% for the U.S. Over the decade, Indiana's unemployment rate has remained well below the national average, ranging from 69% to 88% of the U.S. average.

From 1991 to 2001, Indiana has witnessed a significant shift in the distribution of employment between sectors. Employment in the service sector increased by 40%, followed by a 35% gain in construction and a 18% increase in wholesale and retail trade. During this period, the number of manufacturing jobs also increased by 3%. However, manufacturing jobs declined from a 24.7% share of total non-farm employment to a 21.7% share. The service sector increased from 21.5% to 25.7%, and is now the largest single sector of employment in Indiana. The diversity of the workforce is reflected in the fact that Indiana's top five employment sectors comprise just 27% of the workforce, with health services being the largest segment of private employment.

Indiana is the 15th largest exporting state in the nation. Since 1990, exports in Indiana have outperformed the nation, increasing by 160%, compared to 99% for the nation as a whole. In 2000, Indiana experienced export growth in excess of 18% while exports for the United States increased by about 13%. A large increase in exports to Mexico and a return of exports to Asian markets contributed to Indiana's 2000 export increase. In 2000, Indiana experienced another record-breaking year with the State's exports reaching an all time high of $16.5 billion.

Indiana benefits from proximity to major markets and population centers — both national and international. Through Indiana's three ports, businesses can access markets and population centers in the north, through Lake Michigan and the Great Lakes-St. Lawrence Seaway; and to the south, through the Ohio and Mississippi rivers. With 11,300 miles of State highways and 1,171 miles of interstate highways, Indiana has more interstate highways passing through it than any other state. Indiana is within a day's drive of two-thirds of the population of the United States.

The cost of living in Indiana is relatively low. The cost of living index for all of Indiana's major cities has consistently been below the national average of 100. Indiana ranks favorably among the states in housing affordability and percent of home ownership. Electricity costs are comparatively low in Indiana. According to the U.S. Energy Information Administration, average electric utility rates during 2000 were 14.6% lower than the national average for all industrial customers while residential energy bills were 17.2% lower than the national average.

Table VIII-1 Summary Comparison: Indiana and the U.S.							
	1950	***1960***	***1970***	***1980***	***1990***	***2000***	***2001***
Population (1)							
Indiana	3,934	4,662	5,195	5,490	5,544	6,080	6,115
% Change		18.5%	11.4%	5.7%	1.0%	9.7%	0.6%
U.S.	151,326	179,323	203,302	226,546	248,710	281,422	284,797
% Change		18.5%	13.4%	11.4%	9.8%	13.2%	1.2%
Employment (2)							
Indiana	1,272	1,431	1,849	2,130	2,522	3,009	2,959
% Change		12.5%	29.2%	15.2%	18.4%	19.3%	-1.7%
U.S.	45,197	54,189	70,880	90,406	109,419	132,367	131,297
% Change		19.9%	30.8%	27.5%	21.0%	21.0%	-0.8%
Personal Income (3)							
Indiana	$1,510	$2,209	$3,810	$9,449	$17,625	$27,011	
% Change		46.3%	72.5%	148.0%	86.5%	53.3%	
U.S.	$1,492	$2,276	$4,095	$10,183	$19,584	$29,676	
% Change		52.5%	79.9%	148.7%	92.3%	51.5%	

(1) In thousands. Except for 2001, reflects the results of the census as of April 1 of each year.

(2) In thousands. Nonfarm payroll employment only. See Table VIII-10.

(3) Growth measured by current dollars per capita. See Table VIII-7.

Source: U. S. Census Bureau ; U.S. Department of Labor, Bureau of Labor Statistics and Bureau of Economic Analysis,

Population

Indiana is the 14th most populous state in the United States. After leveling off in the 1980's, the pace of Indiana's population growth increased by 9.7% from 1990 to 2000, significantly faster than all other mid-western states. Indiana's population increased not only in relative terms, but its population increase of 536,326 persons during the 90's was the 18th largest population increase in absolute terms. According to the July 1, 2001 estimate from the U.S. Census Bureau, Indiana's population is currently over 6.1 million people, a 0.6% increase from Census 2000. Except for Wisconsin, Indiana's rate of growth again outpaced all other mid-western states over the year.

Throughout the decade, Indiana has benefited from net in-migration; meaning, more people are entering the State than leaving it, reversing an out-migration trend that occurred in the 1980s. Of Indiana's neighboring states, only Kentucky has posted net positive population migration in each of the years 1991 through 1999.

Table VIII-2 **Net Population Migration** (In thousands)					
Year	Indiana	Illinois	Michigan	Ohio	Kentucky
1991	11	-28	1	-4	3
1992	12	-7	9	7	19
1993	19	-12	-2	-2	24
1994	12	-18	2	-13	16
1995	16	-24	22	-13	16
1996	10	-26	27	-17	11
1997	6	-25	-6	-23	11
1998	4	-23	-13	-30	10
1999	4	-18	-3	-26	10
1990-99	111	-175	-99	-113	113

Source: U.S. Census Bureau. 1990-1999 total based on revised figures released in 2000.

The capital and largest city in the state is Indianapolis. Other major cities include Fort Wayne, Evansville, Gary and South Bend. Indiana has all or portions of 12 metropolitan statistical areas ("MSA") and one primary MSA situated within its borders. From 1990 to 2000, population growth within the Indianapolis MSA increased 16.4%, making it the second fastest growing major metropolitan area in the Midwest, surpassing the nation's growth. All but two of Indiana's other metropolitan areas showed increases in population for the decade, with the Elkhart-Goshen area leading the way at 17%, while the Muncie region's population decreased .07%.

Table VIII-3 **Population of Indiana Cities and MSAs**							
Cities				Metropolitan Statistical Areas			
City	1990 Census	2000 Census	% Change	MSA	1990 Census	2000 Census	% Change
Indianapolis	741,952	791,926	6.7%	Indianapolis MSA (1)	1,380,491	1,607,486	16.4%
Fort Wayne	173,072	205,727	18.9%	Fort Wayne MSA (2)	456,281	502,141	10.1%
Evansville	126,272	121,582	-3.7%	Evansville-Henderson MSA (3)	156,198	182,791	17.0%
Gary	116,646	102,746	-7.6%	Gary Primary MSA (4)	604,526	631,362	4.4%
South Bend	105,511	107,789	-2.6%	South Bend MSA(5)	247,052	265,559	7.5%

(1) Marion, Boone, Hamilton, Madison (including the City of Anderson), Hendricks, Hancock, Morgan, Johnson and Shelby counties. The Indianapolis MSA is adjacent to the Lafayette (including Purdue University), Kokomo, Muncie (including Ball State University) and Bloomington (including Indiana University) MSAs.

(2) Allen, DeKalb, Whitley, Huntington, Wells and Adams counties.

(3) Posey, Vanderburgh (including University of Southern Indiana) and Warrick counties, Indiana, and Henderson County, Kentucky.

(4) Lake and Porter counties, Indiana; part of the Chicago-Gary-Kenosha, Illinois-Indiana-Wisconsin CMSA.

(5) St. Joseph County, Indiana (including University of Notre Dame); adjacent to Elkhart-Goshen MSA, Elkhart County, Indiana.

Source: U.S. Census Bureau.

As reflected in Table VIII-4, the State's demographic profile closely matches the nation. Changes in the Indiana demographic profile since 1990 also match national trends, including a decline in the portion of the population between eighteen and twenty-four and an increase in the portion of the "aging baby boomer" (age 45-64) population. Interestingly, Indiana has seen a nominal decrease in the size of its "senior citizen" population. Unlike the nation, Indiana's median age has become younger as a greater proportion of young people are added to the population.

Table VIII-4
Demographic Profile

Age (Years)	Indiana 1990	Indiana 2000	United States 1990	United States 2000
Under 5	7.2%	7.0%	7.6%	6.8%
5-17	18.7%	18.9%	18.2%	18.9%
18-24	11.0%	10.2%	10.8%	9.7%
25-44	31.5%	29.4%	32.4%	30.2%
45-64	19.1%	22.0%	18.6%	22.0%
65 and older	12.6%	12.4%	12.5%	12.4%
Median Age	35.4 years	35.2 years	32.8 years	35.3 years

Source: U.S. Census Bureau

Gross State Product

With an estimated 1999 Gross State Product of more than $182.2 billion, Indiana's economy ranks as the 15th largest in the country in terms of the value of goods and services produced. After trailing the national growth rate during the 1980's, Indiana's economy has grown at a faster pace than the nation during the 1990's, increasing its weight as a percent of the national economy from 1.9% in 1990 to 2.0% in 1999.

Table VIII-5
Total Gross State and Domestic Product

	In Millions of Current Dollars			Growth Rate	
	1980	1990	1999	1980 to 1990	1990 to 1999
Indiana	58,379	110,788	182,202	89.8%	64.5%
U.S.	2,731,618	5,706,658	9,308,983	108.9%	63.1%
Indiana as %of U.S. GDP	2.1%	1.9%	2.0%		

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

The State's economy is increasingly diversified, having undergone a shift in composition over time. Since 1980, agriculture has declined in importance to the Indiana economy, accounting for 1% of the State's economic production in 1999, same as the national average. Conversely, the service sector has grown significantly, increasing from 14.8% to 16.6% of total state output. Manufacturing has increased its share of Gross State Product very slightly, but at 30.9% still remains the largest component of the economy.

Table VIII-6									
Gross State Product (GSP) and Gross Domestic Product (GDP) in Current Dollars									
	1990		1999		Growth Rate 1990-1999	1999		Indiana as a % of U.S
Sector	Indiana GSP (millions)	% of Total	Indiana GSP (millions)	% of Total		U.S. GDP (million)	% of Total	
Agriculture	2,476	2.2%	1,820	1.0%	-26%	125,441	1.3%	1.5%
Mining	640	0.6%	761	0.4%	19%	111,797	1.2%	0.7%
Construction	5,074	4.6%	9,235	5.1%	82%	416,354	4.5%	2.2%
Manufacturing	33,665	30.3%	56,294	30.9%	67%	1,500,806	16.1%	3.8%
Transportation & Utilities	10,111	9.1%	13,845	7.6%	37%	779,647	8.4%	1.8%
Wholesale Trade	6,452	5.8%	11,157	6.1%	73%	643,284	6.9%	1.7%
Retail Trade	10,238	9.2%	16,853	9.2%	65%	856,364	9.2%	2.0%
F.I.R.E	13,691	12.3%	23,744	13.0%	73%	1,792,090	19.3%	1.3%
Services	16,416	14.8%	30,219	16.6%	84%	1,986,918	21.3%	1.5%
Government	12,228	11.0%	18,273	10.0%	49%	1,096,282	11.8%	1.7%
Summed Total	110, 991		182,273		64%	9,308,983		2.0%

Source: U.S. Department of Commerce, Bureau of Economic Analysis. Totals may not add due to rounding.

Income

Personal Income. In 2000, Indiana's per capita personal income reached $27,011, increasing 3.3% over 1999. Over the past ten years, Indiana's personal income has grown at an average annual rate of 3.96%, exceeding the national average rate of 3.85%.

Table VIII-7 Growth in Per Capita Personal Income				
Year	Indiana	U.S.	Indiana	U.S.
1990	$ 17,625	$ 19,584		
1991	18,055	20,089	2.4%	2.6%
1992	19,629	21,082	8.7%	4.9%
1993	20,112	21,718	2.5%	3.0%
1994	21,153	22,581	5.2%	4.0%
1995	21,845	23,562	3.3%	4.3%
1996	22,775	24,651	4.3%	4.6%
1997	23,748	25,874	4.3%	5.0%
1998	25,182	27,322	6.0%	5.6%
1999	26,143	28,542	3.8%	4.5%
2000	27,011	29,676	3.3%	4.0%
Annual Average Growth			3.96%	3.85%

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Household Income. From 1990 to 2000 Indiana's median household income has grown faster than the U.S., averaging an annual growth rate of 1.5% versus 0.8% for the U.S. In 2000, median income was $41,011 or 97% of the U.S. average, up from 90% in 1990. Indiana is clearly a middle-income state, with 70% of Indiana families earning incomes in the three middle quintiles, versus 60% for the U.S. Household income reflects, in addition to personal income, other sources of wealth such as social security, disability benefits, pensions, interest, dividend, trust, and rent. Household income may also reflect multiple wage earners contributing to family income.

Table VIII-8 Growth in Median Household Income 2-yr average				
Year	Indiana	U.S.	Indiana	U.S.
1990	$ 34,749	$ 38,713		
1991	34,064	37,880	-2.0%	-2.2%
1992	33,988	37,140	-0.2%	-2.0%
1993	34,547	36,856	1.6%	-0.8%
1994	33,367	36,941	-3.4%	0.2%
1995	34,776	37,699	4.2%	2.1%
1996	37,954	38,530	9.1%	2.2%
1997	40,016	39,196	5.4%	1.7%
1998	41,767	40,313	4.4%	2.8%
1999	42,114	41,610	0.8%	3.2%
2000	41,011	42,168	-2.6%	1.3%
Annual Average Growth			1.52%	0.78%

Source: U.S. Census Bureau: *Current Population Survey*.

Poverty. Indiana has the thirteenth lowest poverty rate in the nation, with only 8.4% of the state living below the poverty level in 2000. This represents a significant change from 1990 when 13% of Indiana residents lived in poverty, and well below the national rate of 11.3%.

Table VIII-9 Poverty Rates for IN and the US		
Year	Indiana	U.S.
1990	13.0%	13.5%
1991	15.7%	14.2%
1992	11.8%	14.8%
1993	12.2%	15.1%
1994	13.7%	14.5%
1995	9.6%	13.8%
1996	7.5%	13.7%
1997	8.8%	13.3%
1998	9.4%	12.7%
1999	6.7%	11.8%
2000	8.4%	11.3%
Rank	13th lowest of all States	

Source: U.S. Census Bureau: *Current Population Survey.*

Employment

During this past decade, employment in Indiana has shifted significantly between sectors, reflecting the fundamental changes taking place in the state's economy and following larger trends at the national level. The service sector is now the largest sector of employment at 25.7% of total employment, followed by trade at 23.7% and manufacturing at 21.7%. As a result of the current recession, Indiana has lost 50,400 jobs since 2000, with a majority of the job losses occurring in the manufacturing sector, representing a 1.7% decline over 2000 versus a 0.8 decline for the U.S. Although, manufacturing employment peaked in 1999, the number of manufacturing jobs has grown by 188,000 jobs or 3.0% since 1991.

Table VIII-10 Year-Ending Non-Farm Employment (seasonally adjusted)					
	Total Employment		% Change		Net New Jobs
Year	Indiana	U.S.	Indiana	U.S.	Indiana
1991	2,519,600	108,121,000			
1992	2,580,900	109,266,000	2.4%	1.1%	61,300
1993	2,670,000	112,034,000	3.5%	2.5%	89,100
1994	2,758,500	115,918,000	3.3%	3.5%	88,500
1995	2,802,000	118,118,000	1.6%	1.9%	43,500
1996	2,834,300	120,916,000	1.2%	2.4%	32,300
1997	2,877,200	124,271,000	1.5%	2.8%	42,900
1998	2,946,700	127,286,000	2.4%	2.4%	69,500
1999	2,999,400	130,365,000	1.8%	2.4%	52,700
2000	3,008,900	132,367,000	0.3%	1.5%	9,500
2001	2,958,500	131,297,000	-1.7%	-0.8%	-50,400
Average Annual Growth Rate			1.5%	1.8%	
Total Growth			17.4%	21.4%	438,900

Source: U.S. Department of Labor, Bureau of Labor Statistics: *Current Employment Survey*

Table VIII-11 Year-ending Non-Farm Employment By Sector (seasonally adjusted in thousands)					
Sector	1991	% of Total	2001	% of Total	Growth 1991-2001
Mining	7,300	0.3%	6,000	0.2%	-17.8%
Construction	111,700	4.4%	151,000	5.1%	35.2%
Manufacturing	622,400	24.7%	641,200	21.7%	3.0%
Trade	594,400	23.6%	699,800	23.7%	17.7%
Finance, Insurance, Real Estate	126,200	5.0%	140,300	4.7%	11.2%
Transportation & Public Utilities	130,200	5.2%	143,900	4.9%	10.5%
Services	542,000	21.5%	761,100	25.7%	40.4%
Government	385,400	15.3%	415,200	14.0%	7.7%
Total Non-farm Employment	2,519,600	100.0%	2,958,500	100.0%	17.4%

Source: U.S. Department of Labor, Bureau of Labor Statistics: *Current Employment Survey*

Unemployment

Indiana has consistently maintained lower annual unemployment rates than the nation since 1990, despite several changes in the business cycle over the last decade. Although unemployment rates started rising in Indiana in 2000, they still remain well below the national average. Indiana ended 2001 with a 5% unemployment rate, 86.2% of the U.S. rate of 5.8%.

Table VIII-14 **Unemployment Rate** (annual averages of monthly data)			
Year	Indiana	U.S.	Indiana as % of U.S.
1990	5.3	5.6	94.6
1991	6.0	6.8	88.2
1992	6.6	7.5	88.0
1993	5.4	6.9	78.3
1994	4.9	6.1	80.3
1995	4.6	5.6	82.1
1996	4.1	5.4	75.9
1997	3.5	4.9	71.4
1998	3.1	4.5	68.9
1999	3.0	4.2	71.4
2000	3.2	4.0	80.0

Source: U.S. Bureau of Labor Statistics: *Local Area Unemployment Survey*

Industry Diversity

Over the course of the past decade, investment and expansion in certain high-wage industrial sectors have occurred in Indiana, while declining elsewhere. Many industry analysts and economists often refer to Indiana's economy as one that is over reliant on one or two industrial sectors. However, it should be noted that Indiana's large industrial sector is not characterized by one or two predominant industries, but is notable for its industrial diversity. Although autos (92,500 jobs) and steel (59,400 jobs) have a major presence in Indiana, these sectors only account for 3.1% and 2.0%, respectively, of total employment.

Indiana is a national leader in products as diverse as surgical supplies, potato chips, furniture, transistors, glass containers, band instruments, books, etc. The following table looks at the top ten largest sectors by employment. The top three, Health Services, Eating & Drinking Places and Business Services make up 20% of the total workforce. Conversely, those sectors related to durable goods and manufacturing, Transportation Equipment, Wholesale Trade – Durable Goods, and Industrial & Commercial Machinery and Computer Equipment, make up less than half of the top three or 9.5% of the total workforce.

Table VIII-12 **Industry Diversity 2001**		
Sector	Indiana Employment	Sector Share of Total Employment
Health Services	235,300	8.0%
Eating and Drinking Places	203,100	6.9%
Business Services	157,500	5.3%
Transportation Equipment	116,300	3.9%
Wholesale Trade - Durable Goods	97,700	3.3%
Special Trade Contractors	93,000	3.1%
Genaral Merchandise Stores	88,600	3.0%
Miscellaneous Retail	76,400	2.6%
Industrial & Comm. Machinery & Computer Equipment	67,600	2.3%
Food Stores	66,500	2.2%
Total	1,202,000	40.6%

*Note: all categories are two-digit SIC Code Classifications.

Source: U.S. Department of Labor, Bureau of Labor Statistics: *Current Employment Survey*

Table VIII-13
100 Largest Public and Private Employers in Indiana

Company	Indiana FTE Employees	Company	Indiana FTE Employees
Kroger Co.	24,000	United Airlines	3,400
Wal-Mart	22,000	Walgreens Drug Stores	3,400
McDonald's	18,000	Federal Express	3,375
Delphi Automotive	17,000	United Technologies Corp.	3,350
General Motors	13,500	CNB Bankshares	3,300
Daimler-Chrysler Corp.	12,800	Coachman Industries	3,300
Eli Lilly and Co.	12,410	Subway	3,300
K-mart	12,000	Wabash National Corp.	3,300
Clarian Health Partners	10,000	Bob Evans Restaurants	3,200
Dana Corp.	9,300	Lincoln National Corp.	3,200
Marsh Supermarkets	8,900	SuperValu	3,200
Ispat Inland Inc.	8,300	Subaru Isuzu Automotive	3,160
Bank One, Indiana	8,000	Lear corp.	3,100
United States Steel Co.	8,000	Anthem	3,000
Visteon Automotive Systems	7,800	Applebees	3,000
Burger King	7,200	Hillenbrand Industries	3,000
General Electric Co.	7,100	KFC	3,000
Pizza Hut	7,050	Papa Johns Pizza	3,000
Cummins Engine Co.	7,000	Guide Corp	2,940
Ameritech Indiana	6,700	Whirlpool Corp.	2,900
Central Indiana Health System	6,500	White Castle	2,825
Kimball International Inc.	5.865	Aristokraft Inc.	2,800
CVS Drugs	6,050	Federal Mogul Corp.	2,800
Bethlehem Steel Corp.	6,000	Raytheon Co.	2,600
Meijer inc.	6,050	Thompson Consumer Electronics	2,530
NiSource Inc.	5,300	Fairmont Homes	2,500
Dairy Queen	5,200	Marriott	2,500
Wendy's	5,150	National City Bank	2,500
Rolls Royce Allison	5,000	USA Group	2,500
Taco Bell	5,000	Toyota Motor Co.	2,475
Hardees	4,800	Amtran	2,400
Sony Electronics	4,681	Bayer Corp.	2,350
Arby's RTM Mid-America	4,550	Tomkins Industries	2,350
Quorum	4,400	Brylane LP	2,300
Alcoa, Inc.	4,300	Frito-Lay Inc.	2,300
Bristol-Myers Squibb Co.	4,300	Goodwill Industries	2,300
Target	4,300	ITT Defense & Electronics	2,300
Sears & Roebuck	4,200	AT&T	2,200
Sony Electronics	4,150	Central Newspapers Inc.	2,200
Arvin Industries	4,100	Fleetwood Enterprises Inc	2,200
Cinergy/PSI	4,000	Lowe's	2,200
LTV Steel	4,000	Monaco Coach	2,200
Indiana Michigan Power	3,800	Dura Automotive	2,100
RR Donnelley & Sons	3,800	Allied Signal	2,050
United Parcel Service	3,740	Caesar's World Casino	2,000
Conseco	3,600	Hyatt Grand Victoria Casino	2,000
Consolidated Products	3,600	Smurfit Stone Container	2,000
Navistar International	3,500	Franklin Electric Co.	1,950
Norfolk Southern corp.	3,500	IPALCO	1,940
GTE North, Indiana	3,400	Burlington Motor Carriers	1,930

Source: Indiana Chamber of Commerce, June 2000

Exports

Between 1990 and 2000, both Indiana and the nation experienced strong export growth. During this period, Indiana exports increased by 160%, exceeding the overall national growth rate of 99%. In 2000, Indiana experienced export growth of slightly more than 18% while exports for the United States increased by about 13%. In 2000, the State's exports rose to an all-time high of $16.53 billion. The fastest growing industry was Primary Metals, with a 56% increase, followed by Industrial Machinery and Computer Equipment with a 35% growth over the prior year. Mexico accounts for the fastest growing market, with exports more than doubling from $812 million in 1999 to $2.217 billion in 2000. Canada remained Indiana's largest trading partner. In 2000, Indiana opened its 13th foreign trade office in Israel.

Table VIII-15
Indiana Exports

Year	Exports in Millions of Dollars		Annual Percentage Change		
	Indiana	U.S.	Indiana	U.S.	Indiana as a % of U.S. Exports
1990	6,359	392,975	17.5%	12.9%	1.6%
1991	6,438	421,853	1.2%	7.4%	1.5%
1992	6,837	447,471	6.2%	6.1%	1.5%
1993	8,033	464,858	17.5%	3.9%	1.7%
1994	9,261	512,416	15.3%	10.2%	1.8%
1995	11,628	583,031	25.6%	13.8%	2.0%
1996	12,039	622,827	3.5%	6.8%	1.9%
1997	13,136	687,598	9.1%	10.4%	1.9%
1998	13,403	680,474	2.0%	(1.0)%	2.0%
1999	13,970	692,820	4.2%	1.8%	2.0%
2000	16,528	780,419	18.3%	12.6%	2.1%
	Total Growth = 160%	Total Growth = 99%	Average = 10.3%	Average = 7.2%	

Table VIII-16
Indiana's Leading Trade Partners

Top Export Destinations		Fastest Growing Export Destinations **Since 1988***	
Country	2000 Exports ($M)	Country	% Avg. Annual
Canada	$7,554	Poland	40.6
Mexico	2,217	Philippines	28.2
UK	890	Hungary	28.0
Japan	876	Mexico	27.3
Netherlands	577	Malaysia	25.5
France	522	Honduras	23.8
Germany	452	Argentina	22.3
Brazil	328	Portugal	22.1
Australia	284	United Arab Emirates	21.6
Singapore	282	Chile	20.6

* Includes only those export destinations receiving over $100 million in total exports from Indiana since 1988.

Table VIII-17 Indiana's Leading Export Industries			
Top Export Industries		Fastest Growing Export Industries **Since 1988***	
Industry	2000 Exports ($M)	Industry	% Avg. Annual Growth
Transportation Equipment	$4,901	Fabricated Metal	18.13
Industrial. Machinery	2,916	Stone, Clay, & Glass	17.62
Chemicals	2,372	Transportation Equipment	15.90
Electronics	1,411	Instruments	14.65
Primary Metals	1,026	Rubber & Plastic	13.81
Fabricated Metals	880	Industrial Machinery	12.08
Technology Instruments	844	Wood Products	11.59
Rubber & Misc. Plastic	579	Food Products	9.72
Food Products	291	Electronics	8.30
Stone, Clay, & Glass	206	Primary Metals	7.95

* Includes only those export destinations with growth over $100 million in total exports from Indiana since 1988.
Excludes Miscellaneous Goods shipments
Growth is based on geometric growth rate.

Source: Massachusetts Institute for Social and Economic Research (MISER), Indiana Dept. of Commerce

Transportation

Indiana is bordered on the north by Lake Michigan and the State of Michigan, on the south by the Ohio River and the Commonwealth of Kentucky, on the east by the State of Ohio, and on the west by the State of Illinois. The "Crossroads of America," Indiana is centrally situated within the Great Lakes region and is within a day's drive of nearly two-thirds of the United States' population. In addition to an extensive network of highways and railroads, the State has strong air service for both passengers and freight and access to the Great Lakes and the St. Lawrence Seaway, as well as the Ohio and Mississippi rivers.

Highways. Five interstate routes converge on Indianapolis. The Indiana Department of Transportation manages a network of more than 11,000 miles (17,600 km) of federal and State highways. The State is an important location for truck terminals and warehouse centers. This is reflected in the density of truck traffic in the state. Indiana highways carry the sixth highest concentration of truck traffic and the highest for any urban or Eastern state.

Railroads. Indiana is served by at least 43 freight railroads according to the Rail Section of the Indiana Department of Transportation. The State rail network moves raw materials and finished goods to and from hundreds of Indiana customers and is part of the interstate rail system between northeast and western states and between the City of Chicago and the southeastern states. The State has approximately 4,250 miles of railroad track. Ninety of Indiana's ninety-two counties have direct rail service.

Aviation. The State has 114 public use landing facilities. Of these, 6 are primary airports, 6 are reliever airports, 94 are general aviation airports, 2 are ultralight flight parks, 4 are seaplane bases, and 2 are heliports. The primary airports include 1 medium-hub, 1 small-hub airport and 4 non-hub airports. The world's leading air cargo and package services operate major facilities in Indiana, including Federal Express and Kitty Hawk.

Ports and Waterways. The Great Lakes/St. Lawrence Seaway and the Ohio River provide conduits for bulk commodities and general cargo movement of agricultural and manufacturing products. In 1970, the State opened Indiana's International Port, on Lake Michigan to accommodate international and Great Lakes traffic. In 1979, the State opened Southwind Maritime Centre, along the Ohio River, near Mount Vernon in southwest Indiana; and, in 1984, the State opened Clark Maritime Centre along the Ohio River, near Jeffersonville, in south central Indiana.

Public Transportation. Indiana's 44 public transit systems include fixed route and demand response bus systems including one commuter rail system (between South Bend and Chicago). The State's public transit systems carried over 31.5 million passengers in 2000, an increase of 4% from 1999. Transit system vehicles traveled 32.1 million miles in 2000, an increase of 3.5% from 1999. Total fare revenue collected in 2000 was $31.7 million. The statewide farebox recovery percentage (which illustrates the extent to which total operating expenses are covered by fare-paying passengers) was 27% in 2000. The State Public Mass Transportation Fund, which receives .76% of total State Sales and Use Taxes, accounted for $28.4 million, or 24.0%, of total public transit operating revenues in 2000.

Education

Elementary and Secondary. Elementary and Secondary education in the State is provided by 294 school districts, which in the 2001-02 school year operated 1,152 elementary schools, 242 elementary/junior high schools, 18 elementary/high schools, 256junior high/high schools, 91 junior high schools, 75 high schools and 131 schools of special education, vocational education and alternative programs. These numbers do not include private or independent or parochial elementary and high schools, which, in the 2000-01 school year, accounted for 7.1% of the total enrollment at elementary and secondary schools within the State. Public student enrollment for the 2000-01 school year was 993,173.

All public elementary and secondary schools are administered locally by elected or appointed school boards. At the state level, the Indiana State Board of Education, which is comprised of the elected Superintendent of Public Instruction (who serves as chairman) and ten members appointed by the Governor, is the rulemaking body for the public school system. At least four of the appointed members of the State Board of Education must be actively employed in Indiana schools and hold valid teaching or administrative licenses. The Indiana Department of Education, under the direction of the Superintendent of Public Instruction, serves as the professional, technical and clerical staff for the Indiana State Board of Education. The Department administers federal and state education programs.

Approximately 59,206 teachers and 10,606 other professional staff members were employed in the State public school system during the 2000-01 school year. This results in a student teacher ratio (based on total enrollment,) of 16.7:1. The average annual salary for public school teachers in the State (excluding part-time teachers) was $43,311 during the 2000-01 school year.

Higher Education. The Commission for Higher Education was established in 1971 to plan and coordinate Indiana’s system of post-secondary education. The Commission develops long-range plans, reviews budget requests of public post-secondary institutions, and considers the approval of new degree programs.

Indiana has seven public post-secondary institutions. They include six universities, one of which offers only two-year degrees, and a technical college. Indiana University manages seven campuses including the flagship campus in Bloomington and the joint IU-Purdue campus in Indianapolis. Purdue University is the State’s land grant institution. It manages four campuses, including a joint IU-Purdue campus in Fort Wayne. Ivy Tech State College offers degree programs on twenty-three campuses. Vincennes University maintains a branch campus in Jasper and several instructional sites in Indianapolis. The State is also home to more than thirty-two independent colleges and universities. In the fall of 2001, Indiana’s public campuses enrolled 253,721 students – a 4.3% increase over fall 2000 enrollment, while the independent campuses enrolled 70,393 – a 3.0% increase over fall 2000 enrollment.

In 1999, the Indiana General Assembly authorized the creation of a new learning partnership in Indiana, the Community College of Indiana. This partnership of Ivy Tech State College and Vincennes University will focus on both non-degree, skill improvement courses as well as two-year degrees, with greater opportunity to transfer course credits to four-year state universities. The new Community College will stress accessible and affordable education, training and support services. Ivy Tech’s twenty-three statewide campuses will provide the facilities for the College. Initial pilot sites in Evansville, Gary, Lafayette and Indianapolis opened in the fall of 2000 with very strong enrollment gains. Anderson, Lawrenceburg, Marion and Muncie were added in 2001, with expansion to all Ivy Tech locations planned over the next four years.

In 1998, nearly 61% of Indiana's high school graduates went on to college, compared to the national average of 57.2%, ranking Indiana 17th in the nation. This is the first time ever that Indiana has exceeded the national average. From 1994 to 1998, the national average experienced little to no growth while Indiana's college-going rate increased by 5.5%, placing the state among the top ten for percentage gains in college attendance of high school graduates.

Table VIII-18
Public Post-Secondary Institutions
Fall 2001

Name	Programs Offered	Fall Headcount	Campus Locations
Ball State University	4-year	19,488	Muncie
Indiana State University	4-year	11,321	Terre Haute
Indiana University	4-year	90,125	Bloomington, Richmond, Kokomo, Gary, South Bend, New Albany, Indianapolis, Fort Wayne
Purdue University	4-year	63,602	West Lafayette, Hammond, Fort Wayne, Westville, Indianapolis
University of Southern Indiana	4-year	9,362	Evansville
Vincennes University	2-year	8,467	Vincennes, Jasper, Indianapolis
Ivy Tech State College	2-year	51,356	Gary, East Chicago, South Bend, Elkhart, Valparaiso, Fort Wayne, Lafayette, Kokomo, Muncie, Anderson, Wabash Valley, Richmond, Columbus and Bloomington, Lawrenceburg, Evansville, Sellersburg, Indianapolis

IX.
LITIGATION

The following is a summary of certain significant litigation and other claims currently pending against the State, which involve amounts exceeding $5 million individually or in the aggregate as of January 14, 2002. With respect to tort claims only, the State's liability is limited to $300,000 for injury to or death of one person in any one occurrence, and $5,000,000.00 for injury to or death of all persons in that occurrence.

In 1968, a lawsuit seeking to desegregate the Indianapolis Public Schools was filed in the United States District Court for the Southern District of Indiana. Since about 1978, the State has paid several million dollars per year for inter-district busing that is expected to continue through 2016. The federal court entered its final judgment in 1981 holding the State responsible for most costs of its desegregation plan, and those costs have been part of the State's budget since then. In June 1998, the parties negotiated an 18-year phase out of the desegregation plan that was approved by the Court and will gradually reduce the State's expenditures over that time frame.

On July 26, 1993, a lawsuit was filed in Marion Superior Court alleging that the State has failed to pay certain similarly classed State employees at an equal rate of pay. The plaintiffs in the action sought class action status. The relief sought includes damages in an unspecified amount, as well as injunctive relief. This matter is still pending and, if the plaintiffs are ultimately successful, the loss would be in excess of $5 million.

In a lawsuit filed against the State on January 9, 1993, the Marion County Superior Court invalidated the portion of the Medicaid disability standard that permits the State to ignore applicants' who are unable to pay but have a medical condition that will improve with treatment. After an appeal and remand, the trial court again invalidated the standard in December 1999, and the Court of Appeals recently affirmed the trial court's decision. The State sought transfer to the Supreme Court. In July 2001, the Supreme Court denied transfer, thus affirming the adverse trial court decision. As of December 2001, the State and the plaintiffs have agreed on Medicaid's manner of compliance with the judgment, and the agreement is awaiting court approval. The fiscal impact is estimated to be $63.9 million over the current biennium and $322.7 million in possible retroactive payments.

In 1993, certain transportation providers filed lawsuits against the State, challenging the current Medicaid reimbursement program for transportation services. The state prevailed in both the state and federal trial courts, but the plaintiffs appealed. The State won the appeal, but the federal appeal resulted in a remand for lack of federal jurisdiction. The State will retry the federal issues before a state trial court. If the rules are ultimately enjoined, the State would forfeit savings in excess of $5 million.

On February 10, 2000, a class action by a group of truckers and trucking companies seeks what may be in excess of $5 million in fuel tax refunds attributable to five quarters between the date the previous proportional use exemption was declared unconstitutional and the date the present proportional use exemption was enacted. The case is presently pending in the Tax Court. The Tax Court denied class certification, which substantially reduces the potential liability; however, the truckers have already filed a petition for review in the Supreme Court (which was dismissed as premature), so the class action ruling is subject to further court proceedings. The Tax Court has also ruled that the claimants are entitled to refunds of the tax paid during the five quarters (15 months) at issue in the case. Discovery and other proceedings are currently ongoing concerning the amount of the refunds to be paid. At the appropriate time, it is anticipated that a petition for review will be filed in the Supreme Court to challenge the conclusion that refunds are due.

In September 2000 various Lake County officials filed a lawsuit in Tax Court claiming that residents of the county pay a disproportionate share of Hospital Care for the Indigent property tax and that the tax therefore violates various constitutional provisions. It is similar to five previous suits that were dismissed on procedural grounds but this one is likely to be addressed on the merits. A response to the petition was filed in November 2000. Plaintiffs are claiming that upwards of $20 million should be refunded to taxpayers. The parties filed cross-motions for summary judgment and Judge Fisher heard oral argument on December 4, 2001. He indicated that he would issue a decision in 90 days.

In February 2000 several trucking companies filed a suit in Tax Court challenging the collection of motor fuel tax attributable to miles driven on the Indiana Toll Road and seeking refunds of approximately $100 million. They claim that motor fuel tax tied to Toll Road use violates the Commerce Clause of the U. S. Constitution and constitutes double taxation as the truckers also pay to use the Toll Road. On October 30, 2001, the Tax Court denied class certification and also granted summary judgment to the Department of Revenue, concluding that no refund is due. The trucking companies have filed a petition for rehearing with the Tax Court. There is no doubt that a petition for review will be filed with the Supreme Court at the appropriate time.

In July 2000, a gaming corporation operating one of the riverboats has challenged the interpretation the Department of Revenue has placed on the Riverboat Gaming Tax, claiming that the tax is not an add-back for adjusted gross income tax and supplemental net income tax purposes. The case is pending before the Tax Court on cross motions for summary judgment. The potential financial impact of this case is between $5 and $10 million, with additional impact because of the precedent it would have on other gaming operations.

In 1995, Property owners filed an action against the Department of Environmental Management, the Office of Environmental Adjudication and current and former officials of those agencies claiming that denial of a permit for certain land use was an unconstitutional taking and denial of due process, as well as violation of the Indiana Constitution. The plaintiffs are seeking in excess of $30 million in damages plus costs and attorney fees. The case is pending in federal court.

On May 16, 2000, property owners along the Fawn River filed an action against the Governor, Indiana Department of Natural Resources and officials and employees of IDNR for violations of the Clean Water Act, unconstitutional takings and section 1983 violations. The Plaintiffs are seeking in excess of $30 million in damages, costs and attorneys fees. The case is pending in both federal and state court.

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EXHIBIT A-1
TO
APPENDIX A

GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE STATE OF INDIANA
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
4TH FLOOR, ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.state.in.us/sboa

INDEPENDENT AUDITORS' REPORT

TO: The Honorable Frank O'Bannon
The Members of the General Assembly, and
The Citizens of the State of Indiana

We have audited the accompanying general purpose financial statements of the State of Indiana as of and for the year ended June 30, 2001. These general purpose financial statements are the responsibility of the State of Indiana's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of certain component units of the State, as discussed in Note I(A), which statements reflect total assets and revenues of $6,095.2 million and $1,160.4 million respectively, as of and for the year ended June 30, 2001. The financial statements of these component units were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to those units, is based solely upon the reports of the other auditors. These reports represent 22% of special revenue fund assets, 100% of debt service fund assets, 12.2% of capital projects fund assets, 94.4% of enterprise fund assets, 87.6% of internal service fund assets and 100% of proprietary and governmental discretely presented component unit assets.

We conducted our audit in accordance with general accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of Indiana as of June 30, 2001, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended, in conformity with generally accepted accounting principles.

As discussed in Note III (I) to the financial statements, the State of Indiana has restated certain beginning fund balances and retained earnings. The Housing Finance Authority, a discretely presented component unit, reports on a December 31, 2000 year end.

The required supplementary information as listed in the table of contents is not a required part of the basic financial statements but is supplementary information. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the State of Indiana. The combining and individual fund financial statements, account groups and schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information, and not the information in the Introductory and Statistical sections, has been subjected to auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements of each of the fund types and account groups included in the general purpose financial statements taken as a whole. We express no opinion on the information in the Introductory or Statistical Sections.

State Board of Accounts

December 20, 2001

STATE BOARD OF ACCOUNTS


SEAL OF THE STATE OF INDIANA
1816

State of Indiana
Combined Balance Sheet
All Fund Types, Account Groups, and Component Units
June 30, 2001
(amounts expressed in thousands)

	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
Assets and other debits:						
Assets:						
Cash, cash equivalents and investments - restricted	$ -	$ -	$ -	$ -	$ 114,790	$ 25,520
Cash, cash equivalents and investments - unrestricted	1,351,606	2,877,127	14,651	622,231	206,820	209,196
Securities lending collateral	1,324,527	973,020	-	375,671	-	934
Receivables:						
Taxes (net of allowance for uncollectible accounts)	1,043,312	392,840	-	1,601	-	-
Accounts	10,104	22,898	-	-	20,178	7,565
Grants	3,819	48,960	-	225	-	-
Notes	-	-	-	-	-	-
Interest	5,332	25,722	34	797	707	499
Contributions	-	-	-	-	-	-
Member loans	-	-	-	-	-	-
Interfund	7,331	16,096	-	21,385	-	-
Due from other funds	-	-	3,450	-	-	7,121
From investment sales	-	-	-	-	-	-
Other	-	-	-	-	-	
Due from primary government	-	-	-	-	-	-
Due from component unit	-	-	-	-	-	
Advances to other funds	2,408	64,475	-	-	-	300
Intergovernmental loans	7,466	490,294	-	5,985	-	-
Student loans	-	-	-	-	-	-
Mortgage loans	-	-	-	-	-	-
Inventory	-	-	-	-	3,945	9,252
Prepaid expenses/expenditures	1,877	2,765	-	-	759	1,202
Food stamp inventory	-	105,860	-	-	-	-
Construction in progress	-	-	-	-	34,694	201,271
Bond issue costs - net of amortization	-	-	-	-	1,885	10,202
Property, plant and equipment, net	-	-	-	-	217,315	567,989
Other assets	-	-	-	-	11,273	-
Other debits:						
Amount available for debt service fund	-	-	-	-	-	-
Amount to provided for retirement of long term debt	-	-	-	-	-	-
Total assets and other debits	**$ 3,757,782**	**$ 5,020,057**	**$ 18,135**	**$ 1,027,895**	**$ 612,366**	**$ 1,041,051**
Liabilities, equity and other credits:						
Liabilities:						
Accounts payable	$ 89,054	$ 319,187	$ 3,066	$ 6,938	$ 21,729	$ 7,895
Accrued interest payable	-	-	2,245	-	5,179	42,460
Salaries and benefits payable	43,564	38,080	-	-	3,706	1,228
Capital lease payable	-	-	-	-	-	66
Pension / health / disability benefits payable	-	-	-	-	-	35,406
Interfund payables	-	7,331	-	8,596	28,885	-
Due to component unit	-	639,787	-	-	7,500	78
Due to other funds	3,305	7,256	-	5	-	5
Tax refunds payable	35,194	2,805	-	-	-	-
Deferred revenue	416,906	295,185	-	161	3,700	4,656
Accrued prize liability	-	-	-	-	35,189	-
Accrued liability for compensated absences	3,069	2,715	-	-	-	85
Intergovernmental payable	43,087	730,300	-	-	-	-
Escheated property liability	-	-	-	-	-	-
Investment purchases payable	-	-	-	-	-	-
Other liabilities	-	-	-	-	1,419	256
Securities lending collateral	1,324,527	973,020	-	375,671	-	934
Obligations under reverse repurchase agreements	-	-	-	-	-	-
Long term liabilities:						
Construction retention	-	-	-	-	-	6,198
Accrued liability for compensated absences	-	-	-	-	245	1,695
Net Pension Obligations	-	-	-	-	-	-
Capital lease payable	-	-	-	-	-	74
Accrued prize liability	-	-	-	-	44,290	-
Advances from other funds	-	66,383	-	-	300	500
Revenue bonds / notes payable	-	-	-	-	234,584	842,516
Total liabilities	1,958,706	3,082,049	5,311	391,371	386,726	944,052
Equity and other credits:						
Investment in general fixed assets / plant	-	-	-	-	-	-
Contributed Capital	-	-	-	-	9,353	20,349
Retained earnings:						
Reserved (see note III. G.)	-	-	-	-	189,565	25,980
Unreserved	-	-	-	-	26,722	50,670
Fund balances:						
Reserved (see note III. G.)	354,453	1,619,860	12,824	19,409	-	-
Unreserved:						
Allocated	-	-	-	-	-	-
Unallocated	-	-	-	-	-	-
Designated for appropriations	240,414	319,825	-	384,219	-	-
Designated for allotments	693,150	754,047	-	107,834	-	-
Undesignated	511,059	(755,724)	-	125,062	-	-
Total equity and other credits	1,799,076	1,938,008	12,824	636,524	225,640	96,999
Total liabilities, equity and other credits	**$ 3,757,782**	**$ 5,020,057**	**$ 18,135**	**$ 1,027,895**	**$ 612,366**	**$ 1,041,051**

The notes to the financial statements are an integral part of this statement.

Fiduciary Fund Types: Trust and Agency	Account Groups: General Fixed Assets	Account Groups: General Long-Term Debt	Totals Primary Government (Memorandum Only)	Component Units: Governmental	Component Units: Proprietary	Component Units: Pension Trust	Component Units: Colleges and Universities	Totals Reporting Entity (Memorandum Only)
$ -	$ -	$ -	$ 140,310	$ 24,666	$ 289,224	$ -	$ -	$ 454,200
3,215,556	-	-	8,497,187	4,853	363,414	15,965,754	2,359,267	27,190,475
458,971	-	-	3,133,123	-	321,063	1,981,094	116,294	5,551,574
16,006	-	-	1,453,759	-	-	-	-	1,453,759
50	-	-	60,795	-	-	-	166,457	227,252
1,024	-	-	54,028	-	-	-	-	54,028
-	-	-	-	5,309	-	-	-	5,309
1,137	-	-	34,228	-	44,357	98,265	13,840	190,690
173	-	-	173	-	-	142,276	-	142,449
8,803	-	-	8,803	-	-	-	-	8,803
-	-	-	44,812	-	-	-	-	44,812
-	-	-	10,571	-	-	-	-	10,571
-	-	-	-	-	-	221,447	-	221,447
-	-	-	-	281	-	-	43,087	43,368
-	-	-	-	-	638,853	8,512	-	647,365
-	-	-	-	-	-	10,962	-	10,962
-	-	-	67,183	-	-	-	-	67,183
326,578	-	-	830,323	-	659,757	-	-	1,490,080
-	-	-	-	-	188,064	-	126,298	314,362
-	-	-	-	-	791,725	-	-	791,725
-	-	-	13,197	-	-	-	30,269	43,466
-	-	-	6,603	-	-	-	22,319	28,922
-	-	-	105,860	-	-	-	-	105,860
-	-	-	235,965	-	-	-	46,626	282,591
-	-	-	12,087	-	21,240	-	-	33,327
-	1,672,821	-	2,458,125	-	533	59	3,250,391	5,709,108
-	-	-	11,273	-	3,469	-	21,839	36,581
-	-	12,824	12,824	-	-	-	-	12,824
-	-	1,048,928	1,048,928	-	-	-	-	1,048,928
$ 4,028,298	$ 1,672,821	$ 1,061,752	$ 18,240,157	$ 35,109	$ 3,321,699	$ 18,428,369	$ 6,196,687	$ 46,222,021
$ 431,110	$ -	$ -	$ 878,979	$ 62	$ 3,223	$ 8,223	$ 125,376	$ 1,015,863
-	-	-	49,884	-	30,325	-	-	80,209
-	-	-	86,578	-	-	8,610	26,863	122,051
-	-	-	66	-	-	-	33,300	33,366
-	-	-	35,406	-	-	-	-	35,406
-	-	-	44,812	-	-	-	-	44,812
-	-	-	647,365	-	-	10,962	-	658,327
-	-	-	10,571	-	-	-	-	10,571
-	-	-	37,999	-	-	-	-	37,999
-	-	-	720,608	-	-	-	81,760	802,368
-	-	-	35,189	-	-	-	-	35,189
-	-	-	5,869	-	-	-	72,874	78,743
312,361	-	-	1,085,748	-	-	-	-	1,085,748
8,364	-	-	8,364	-	-	-	-	8,364
-	-	-	-	-	-	544,952	-	544,952
544	-	-	2,219	4,765	753	-	160,341	168,078
458,971	-	-	3,133,123	-	321,063	1,981,094	116,294	5,551,574
-	-	-	-	-	-	-	46,344	46,344
-	-	-	6,198	-	-	-	-	6,198
-	-	113,995	115,935	-	-	-	-	115,935
-	-	578	578	-	-	-	-	578
-	-	7,511	7,585	-	-	-	-	7,585
-	-	-	44,290	-	-	-	-	44,290
-	-	-	67,183	-	-	-	-	67,183
-	-	939,668	2,016,768	-	2,463,839	-	1,235,648	5,716,255
1,211,350	-	1,061,752	9,041,317	4,827	2,819,203	2,553,841	1,898,800	16,317,988
-	1,672,821	-	1,672,821	-	-	-	2,091,537	3,764,358
-	-	-	29,702	-	-	-	-	29,702
-	-	-	215,545	-	-	-	422,750	638,295
-	-	-	77,392	-	502,496	-	-	579,888
634,497	-	-	2,641,043	5,948	-	15,874,528	-	18,521,519
-	-	-	-	-	-	-	995,286	995,286
-	-	-	-	-	-	-	788,314	788,314
2,445	-	-	946,903	-	-	-	-	946,903
2,147,374	-	-	3,702,405	-	-	-	-	3,702,405
32,632	-	-	(86,971)	24,334	-	-	-	(62,637)
2,816,948	1,672,821	-	9,198,840	30,282	502,496	15,874,528	4,297,887	29,904,033
$ 4,028,298	$ 1,672,821	$ 1,061,752	$ 18,240,157	$ 35,109	$ 3,321,699	$ 18,428,369	$ 6,196,687	$ 46,222,021

State of Indiana
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types, Expendable Trust Funds, and Similar Discretely Presented Component Units
For the Fiscal Year Ended June 30, 2001

(amounts expressed in thousands)

	Governmental Fund Types				Fiduciary Fund Type	Totals Primary Government	Component Units	Totals Reporting Entity
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	(Memorandum Only)	Governmental	(Memorandum Only)
Revenues:								
Taxes:								
Income	$ 5,500,612	$ 81,635	$ -	$ -	$ -	**$ 5,582,247**	$ -	**$ 5,582,247**
Sales	2,138,971	1,528,532	-	-	-	**3,667,503**	-	**3,667,503**
Fuels	-	768,957	-	-	-	**768,957**	-	**768,957**
Gaming	122,201	352,508	-	-	-	**474,709**	-	**474,709**
Unemployment	-	-	-	-	238,826	**238,826**	-	**238,826**
Inheritance	170,995	-	-	-	-	**170,995**	-	**170,995**
Alcohol & tobacco	72,110	88,004	-	14,940	-	**175,054**	-	**175,054**
Insurance	149,143	2,009	-	-	-	**151,152**	-	**151,152**
Financial institutions	-	49,245	-	-	-	**49,245**	-	**49,245**
Other	4,252	118,475	-	-	-	**122,727**	-	**122,727**
Total taxes	8,158,284	2,989,365	-	14,940	238,826	**11,401,415**	-	**11,401,415**
Licenses, permits and franchises	30,810	393,797	-	-	-	**424,607**	-	**424,607**
Current service charges	193,437	419,350	-	112	-	**612,899**	206	**613,105**
Investment income	296,168	145,834	1,327	54,476	83,958	**581,763**	2,629	**584,392**
Sales/rents	741	69,019	-	-	-	**69,760**	17	**69,777**
Member contributions	-	-	-	-	56,118	**56,118**	-	**56,118**
Grants	18,935	5,287,202	-	11,135	13,456	**5,330,728**	-	**5,330,728**
Donations/escheats	-	1,901	-	-	29,991	**31,892**	-	**31,892**
Other	7,071	272,155	-	1,268	-	**280,494**	-	**280,494**
Total revenues	8,705,446	9,578,623	1,327	81,931	422,349	**18,789,676**	2,852	**18,792,528**
Expenditures:								
Current:								
General government	1,952,388	2,099,935	-	-	1,287	**4,053,610**	-	**4,053,610**
Public safety	610,933	486,543	-	-	-	**1,097,476**	-	**1,097,476**
Health	132,887	175,644	-	-	-	**308,531**	-	**308,531**
Welfare	387,646	5,227,815	-	-	4,625	**5,620,086**	-	**5,620,086**
Conservation, culture and development	76,405	409,969	-	-	458,245	**944,619**	22,684	**967,303**
Education	5,471,491	605,405	-	-	-	**6,076,896**	-	**6,076,896**
Transportation	3,734	1,407,973	-	-	-	**1,411,707**	-	**1,411,707**
Member withdrawals	-	-	-	-	22,035	**22,035**	-	**22,035**
Capital outlays	-	-	-	129,934	-	**129,934**	-	**129,934**
Loss on reimbursement agreement	-	-	-	-	-	**-**	4,031	**4,031**
Debt service	-	-	63,709	-	-	**63,709**	-	**63,709**
Total expenditures	8,635,484	10,413,284	63,709	129,934	486,192	**19,728,603**	26,715	**19,755,318**
Excess (deficiency) of revenues over (under) expenditures	69,962	(834,661)	(62,382)	(48,003)	(63,843)	**(938,927)**	(23,863)	**(962,790)**
Other financing sources (uses):								
Bond proceeds	-	312	-	240,577	-	**240,889**	-	**240,889**
Operating transfers in	2,102,277	4,816,655	63,166	368,363	1,440	**7,351,901**	-	**7,351,901**
Operating transfers (out)	(3,254,432)	(3,583,741)	-	(408,550)	(39,640)	**(7,286,363)**	-	**(7,286,363)**
Operating transfers in -- from primary government	-	-	-	-	-	**-**	23,374	**23,374**
Operating transfers in -- from component unit	-	-	-	-	2,328	**2,328**	-	**2,328**
Operating transfers (out) -- to component unit	(7,169)	-	-	(16,205)	-	**(23,374)**	-	**(23,374)**
Proceeds from capital leases	155	4,662	-	-	-	**4,817**	-	**4,817**
Total other financing sources (uses)	(1,159,169)	1,237,888	63,166	184,185	(35,872)	**290,198**	23,374	**313,572**
Excess of revenues and other financing sources over (under) expenditures and other uses	(1,089,207)	403,227	784	136,182	(99,715)	**(648,729)**	(489)	**(649,218)**
Fund balances, July 1, as restated	2,888,283	1,534,781	12,040	500,342	2,122,464	**7,057,910**	30,771	**7,088,681**
Fund balances, June 30	**$ 1,799,076**	**$ 1,938,008**	**$ 12,824**	**$ 636,524**	**$ 2,022,749**	**$ 6,409,181**	**$ 30,282**	**$ 6,439,463**

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis)
General Fund
For the Year Ended June 30, 2001
(amounts expressed in thousands)

	Budget		Actual	Variance to Final Budget
	Original	Final		
Revenues:				
Taxes:				
Income	$ 5,271,000	$ 5,271,000	$ 5,553,425	$ 282,425
Sales	2,231,800	2,231,800	2,130,404	(101,396)
Gaming	-	-	122,201	122,201
Inheritance	136,700	136,700	163,674	26,974
Alcohol and tobacco	65,700	65,700	67,076	1,376
Insurance	150,000	150,000	147,895	(2,105)
Other	8	8	4,252	4,244
Total taxes	7,855,208	7,855,208	8,188,927	333,719
Licenses	20,460	20,460	30,810	10,350
Current service charges	133,934	133,934	183,333	49,399
Investment income	170,000	170,000	186,038	16,038
Sales	-	-	900	900
Grants	67,900	67,900	15,201	(52,699)
Other	2,700	2,700	7,071	4,371
Total revenues	8,250,202	8,250,202	8,612,280	362,078
Expenditures:				
General government	1,915,486	2,118,415	1,833,802	284,613
Public safety	617,189	673,239	597,776	75,463
Health	122,445	144,947	133,469	11,478
Welfare	442,332	426,661	388,911	37,750
Conservation, culture and development	102,872	158,645	76,236	82,409
Education	5,437,240	5,489,022	5,469,041	19,981
Transportation	1,163	13,255	4,499	8,756
Total expenditures	8,638,727	9,024,184	8,503,734	520,450
Excess of revenues over (under) expenditures	(388,525)	(773,982)	108,546	882,528
Other financing sources (uses):				
Total other financing sources (uses)	(1,222,948)	(1,222,948)	(1,159,324)	63,624
Excess of revenues and other financing sources over (under) expenditures and other financing uses	$ (1,611,473)	$ (1,996,930)	$ (1,050,778)	$ 946,152
Fund balances July 1, as restated			2,426,460	
Fund balances June 30			**$ 1,375,682**	

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis)
Special Revenue Fund Types
For the Year Ended June 30, 2001
(amounts expressed in thousands)

	Budget Original	Budget Final	Actual	Variance to Final Budget
Revenues:				
Taxes:				
Income	$ 140,275	$ 140,275	$ 76,540	$ (63,735)
Sales	1,500,597	1,500,597	1,517,979	17,382
Fuels	739,749	739,749	771,028	31,279
Gaming	330,424	330,424	351,771	21,347
Alcohol and tobacco	12,454	12,454	45,270	32,816
Insurance	5,168	5,168	2,009	(3,159)
Financial institutions	141,039	141,039	54,895	(86,144)
Other	34,305	34,305	118,310	84,005
Total taxes	2,904,011	2,904,011	2,937,802	33,791
Licenses	386,833	386,833	392,356	5,523
Current service charges	492,868	492,868	412,471	(80,397)
Investment income	24,777	24,777	35,988	11,211
Sales	13,245	13,245	11,025	(2,220)
Grants	4,378,950	4,378,950	4,877,542	498,592
Donations	3,750	3,750	1,901	(1,849)
Other	199,039	199,039	259,156	60,117
Total revenues	8,403,473	8,403,473	8,928,241	524,768
Expenditures:				
General government	1,933,131	1,993,533	1,860,853	132,680
Public safety	481,868	520,654	470,481	50,173
Health	173,668	203,146	178,388	24,758
Welfare	5,066,477	5,261,981	5,101,205	160,776
Conservation, culture and development	481,975	489,995	377,829	112,166
Education	584,254	623,222	605,818	17,404
Transportation	1,264,908	1,412,114	1,403,058	9,056
Total expenditures	9,986,281	10,504,645	9,997,632	507,013
Excess of revenues over (under) expenditures	(1,582,808)	(2,101,172)	(1,069,391)	1,031,781
Other financing sources (uses):				
Total other financing sources (uses)	456,322	456,322	1,260,363	804,041
Excess of revenues and other financing sources over (under) expenditures and other financing uses	$ (1,126,486)	$ (1,644,850)	$ 190,972	$ 1,835,822
Fund balances July 1, as restated			1,556,636	
Fund balances June 30			**$ 1,747,608**	

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combined Statement of Revenues, Expenses and Changes in Retained Earnings (or Equity)
All Proprietary Fund Types, Nonexpendable Trust Funds and Similar Discretely Presented Component Units
For the Fiscal Year Ended June 30, 2001

(amounts expressed in thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Totals Primary Government	Component Units	Totals Reporting Entity
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)	Proprietary Fund Types	(Memorandum Only)
Operating revenues:						
Sales/rents/premiums	$ 573,951	$ 86,736	$ -	**$ 660,687**	$ -	**$ 660,687**
Toll receipts	82,143	-	-	**82,143**	-	**82,143**
Charges for services	-	65,896	-	**65,896**	-	**65,896**
Interest on program loans	-	-	6,242	**6,242**	66,310	**72,552**
Investment income	-	-	-	**-**	139,387	**139,387**
Insurance premiums	-	118,007	-	**118,007**	-	**118,007**
Other	699	391	-	**1,090**	9,647	**10,737**
Total operating revenues	656,793	271,030	6,242	**934,065**	215,344	**1,149,409**
Cost of sales	387,678	18,725	-	**406,403**	-	**406,403**
Gross margin	269,115	252,305	6,242	**527,662**	215,344	**743,006**
Operating expenses:						
General and administrative expense	64,485	74,547	30,725	**169,757**	30,122	**199,879**
Claims expense	2,181	-	-	**2,181**	-	**2,181**
Health / disability benefit payments	-	91,313	-	**91,313**	-	**91,313**
Death settlements	-	809	-	**809**	-	**809**
Medical expense reimbursement	-	692	-	**692**	-	**692**
Depreciation and amortization	12,764	20,798	-	**33,562**	3,513	**37,075**
Other	251	-	-	**251**	649	**900**
Total operating expenses	79,681	188,159	30,725	**298,565**	34,284	**332,849**
Operating income (loss)	189,434	64,146	(24,483)	**229,097**	181,060	**410,157**
Nonoperating revenues (expenses):						
Interest and other investment income (expense)	(3,552)	(32,903)	4,582	**(31,873)**	(111,116)	**(142,989)**
Gain (loss) on disposition of assets	-	38	-	**38**	-	**38**
Other	4,480	-	-	**4,480**	(2,128)	**2,352**
Total nonoperating revenues (expenses)	928	(32,865)	4,582	**(27,355)**	(113,244)	**(140,599)**
Income (loss) before operating transfers	190,362	31,281	(19,901)	**201,742**	67,816	**269,558**
Operating transfers in	-	20,674	56,251	**76,925**	-	**76,925**
Operating transfers (out)	(125,636)	(16,690)	(137)	**(142,463)**	-	**(142,463)**
Operating transfers (out) - to component unit	(30,000)	-	-	**(30,000)**	-	**(30,000)**
Operating transfers (out) - to primary government	-	-	-	**-**	(2,328)	**(2,328)**
Net operating transfers	(155,636)	3,984	56,114	**(95,538)**	(2,328)	**(97,866)**
Net income (loss)	34,726	35,265	36,213	**106,204**	65,488	**171,692**
Retained earnings/fund balances, July 1, as restated	181,561	41,385	451,091	**674,037**	437,008	**1,111,045**
Retained earnings/fund balances, June 30	**$ 216,287**	**$ 76,650**	**$ 487,304**	**$ 780,241**	**$ 502,496**	**$ 1,282,737**

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combined Statement of Cash Flows
All Proprietary Fund Types, Nonexpendable Trust Funds and Similar Discretely Presented Component Units
For the Fiscal Year Ended June 30, 2001

(amounts expressed in thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Totals Primary Government	Component Units	Totals Reporting Entity
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)	Proprietary Fund Types	(Memorandum Only)
Cash flows from operating activities:						
Operating income (loss)	$ 189,434	$ 64,146	$ (24,483)	**$ 229,097**	$ 181,060	**$ 410,157**
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation/amortization expense	12,764	20,798	-	**33,562**	3,513	**37,075**
Other provisions	367	(2,994)	-	**(2,627)**	(4,431)	**(7,058)**
(Increase) decrease in accounts receivable	(3,635)	1,646	-	**(1,989)**	-	**(1,989)**
(Increase) decrease in interest receivable	-	-	9	**9**	(284)	**(275)**
(Increase) decrease in intergovernmental loans	-	-	-	**-**	(52,326)	**(52,326)**
(Increase) decrease in student loans	-	-	-	**-**	6,310	**6,310**
(Increase) decrease in mortgage loans	-	-	-	**-**	(121,332)	**(121,332)**
(Increase) decrease in due from other funds	-	131	-	**131**	-	**131**
(Increase) decrease in inventory	676	1,596	-	**2,272**	-	**2,272**
(Increase) decrease in prepaid expenses	(190)	348	-	**158**	-	**158**
(Increase) decrease in other assets	-	-	-	**-**	(292)	**(292)**
Increase (decrease) in benefits payable	-	752	-	**752**	-	**752**
Increase (decrease) in accounts payable	(64)	(140)	-	**(204)**	(225)	**(429)**
Increase (decrease) in accrued interest payable	-	-	-	**-**	1,185	**1,185**
Increase (decrease) in deferred revenue	449	(1,708)	-	**(1,259)**	(5)	**(1,264)**
Increase (decrease) in salaries payable	983	267	-	**1,250**	-	**1,250**
Increase (decrease) in compensated absences	-	150	-	**150**	-	**150**
Increase (decrease) in due to other funds	-	(164)	-	**(164)**	-	**(164)**
Increase (decrease) in accrued prize liability	(25,703)	-	-	**(25,703)**	-	**(25,703)**
Increase (decrease) in compensated absences	(85)	-	-	**(85)**	-	**(85)**
Increase (decrease) in other liabilities	155	(255)	-	**(100)**	(557)	**(657)**
Net cash provided (used) by operating activities	175,151	84,573	(24,474)	**235,250**	12,616	**247,866**
Cash flows from noncapital financing activities:						
Operating transfers in	-	20,674	56,251	**76,925**	-	**76,925**
Operating transfers (out)	(159,679)	(16,690)	(137)	**(176,506)**	(2,328)	**(178,834)**
Issuance of intergovernmental loans	-	-	(75,313)	**(75,313)**	-	**(75,313)**
Proceeds from intergovernmental loans	-	-	18,500	**18,500**	-	**18,500**
Interest, debt issue costs	-	-	-	**-**	(133,058)	**(133,058)**
Proceeds from issuance of debt	-	-	-	**-**	809,393	**809,393**
Principal payments - bonds / notes	-	-	-	**-**	(666,515)	**(666,515)**
Net cash provided (used) by noncapital financing activities	(159,679)	3,984	(699)	**(156,394)**	7,492	**(148,902)**
Cash flows from capital and related financing activities						
Acquisition/construction of fixed assets	(28,012)	(145,837)	-	**(173,849)**	-	**(173,849)**
Proceeds from sale of fixed assets	-	390	-	**390**	-	**390**
Proceeds from issuance of long-term debt	-	98,662	-	**98,662**	-	**98,662**
Capital contributed	15	-	-	**15**	-	**15**
Principal payments -- capital leases	-	(101)	-	**(101)**	-	**(101)**
Principal payments -- bonds/notes	(9,992)	(11,382)	-	**(21,374)**	-	**(21,374)**
Interest, debt issue costs	(14,733)	(37,086)	-	**(51,819)**	-	**(51,819)**
Net cash provided (used) by capital and related financing activities	(52,722)	(95,354)	-	**(148,076)**	-	**(148,076)**
Cash flows from investing activities:						
Proceeds from sale of investments	852,073	189,638	315,184	**1,356,895**	844,709	**2,201,604**
Purchase of investments	(887,287)	(159,905)	(300,357)	**(1,347,549)**	(810,929)	**(2,158,478)**
Interest income on investments	21,019	5,765	4,582	**31,366**	16,757	**48,123**
Net cash provided (used) by investing activities	(14,195)	35,498	19,409	**40,712**	50,537	**91,249**
Net increase (decrease) in cash and cash equivalents	(51,445)	28,701	(5,764)	**(28,508)**	70,645	**42,137**
Cash and cash equivalents, July 1	178,703	64,408	61,665	**304,776**	146,158	**450,934**
Cash and cash equivalents, June 30	**$ 127,258**	**$ 93,109**	**$ 55,901**	**$ 276,268**	**$ 216,803**	**$ 493,071**
Reconciliation of cash, cash equivalents and investments:						
Cash and cash equivalents at end of year	$ 127,258	$ 93,109	$ 55,901	**$ 276,268**	$ 216,803	**$ 493,071**
Investments	194,352	141,607	104,825	**440,784**	435,835	**876,619**
Other funds presented on balance sheet (trust and agency)	-	-	3,054,830	**3,054,830**	-	**3,054,830**
Cash, cash equivalents and investments per balance sheet	**$ 321,610**	**$ 234,716**	**$ 3,215,556**	**$ 3,771,882**	**$ 652,638**	**$ 4,424,520**
Noncash investing, capital and financing activities:						
Fixed asset portion of contributed capital	30	-	-	**30**	-	**30**

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combined Statement of Changes in Plan Net Assets
Pension Trust Funds
For the Fiscal Year Ended June 30, 2001
(amounts expressed in thousands)

	Primary Government	Component Unit	Totals Reporting Entity (Memorandum Only)
Additions:			
Member contributions	$ 2,870	$ 258,347	$ 261,217
Employer contributions	12,714	947,873	960,587
Net investment income (loss)	331,358	(175,355)	156,003
Less investment expense	(332,943)	(110,833)	(443,776)
Operating transfers in - from primary government	-	30,000	30,000
Other	190	10,264	10,454
Total additions	14,189	960,296	974,485
Deductions:			
Pension benefits	16,619	945,910	962,529
Administrative	284	16,415	16,699
Total deductions	16,903	962,325	979,228
Net increase (decrease)	(2,714)	(2,029)	(4,743)
Net assets held in trust for pension benefits, July 1, as restated	309,609	15,876,557	16,186,166
Net assets held in trust for pension benefits, June 30	**$ 306,895**	**$ 15,874,528**	**$ 16,181,423**

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combined Statement of Changes in Fund Balances
Discretely Presented Component Units - Colleges and Universities
For the Fiscal Year Ended June 30, 2001
(amounts expressed in thousands)

	Current funds			
	Unrestricted	**Restricted**	**Total current funds**	**Loan funds**
Revenue and other additions:				
Current fund revenues	$ 2,447,513	$ 3,466	**$ 2,450,979**	$ -
Grants, gifts and contracts	3,992	691,936	**695,928**	121,269
Appropriations	104,889	93,607	**198,496**	-
Additions to plant and facilities	20	-	**20**	-
Retirement of indebtedness	-	-	**-**	-
Endowment and investment income	6,543	15,055	**21,598**	2,733
Bond proceeds	-	-	**-**	-
Sales and services	-	16,201	**16,201**	174
Auxiliary services	560,357	-	**560,357**	-
Other additions	618	14,718	**15,336**	1,025
Total revenues and other additions	3,123,932	834,983	**3,958,915**	125,201
Expenditures and other deductions:				
Current fund expenditures	2,475,423	102,404	**2,577,827**	-
Restricted fund expenditures	-	642,372	**642,372**	-
Indirect costs recovered	-	72,607	**72,607**	-
Direct student loans issued	-	-	**-**	117,845
Loan cancellations and administration	-	-	**-**	3,528
Administration	-	-	**-**	622
Expended for plant facilities and disposals	-	-	**-**	-
Bond issues and issuance costs, retirements	-	-	**-**	-
Debt service requirements	-	-	**-**	-
Depreciation and amortization	-	-	**-**	-
Other deductions	1,184	1,851	**3,035**	(401)
Auxiliary services	355,699	-	**355,699**	-
Total expenditures and deductions	2,832,306	819,234	**3,651,540**	121,594
Excess of revenues and other additions over (under) expenditures and other deductions	291,626	15,749	**307,375**	3,607
Transfers from (to) other funds:				
Mandatory transfers	(136,651)	7,423	**(129,228)**	38
Non-mandatory transfers	(107,361)	11,864	**(95,497)**	317
Total transfers from / to other funds	(244,012)	19,287	**(224,725)**	355
Net increase (decrease) for the year	47,614	35,036	**82,650**	3,962
Fund balance, July 1, as restated	561,461	147,930	**709,391**	59,790
Fund balance, June 30	**$ 609,075**	**$ 182,966**	**$ 792,041**	**$ 63,752**

The notes to the financial statements are an integral part of this statement.

	Endowments and similar funds	Plant funds: Unexpended	Plant funds: Renewal and replacement	Plant funds: Retirement of indebtedness	Plant funds: Investment in plant	Total plant funds	Total colleges and universities
	$ -	$ -	$ -	$ 274	$ -	**$ 274**	**$ 2,451,253**
	10,258	77,215	-	489	1,682	**79,386**	**906,841**
	-	80,376	4,714	-	-	**85,090**	**283,586**
	-	6,265	322	-	102,509	**109,096**	**109,116**
	-	282	-	-	162,384	**162,666**	**162,666**
	(26,335)	37,954	31,253	5,302	-	**74,509**	**72,505**
	-	134,532	-	-	-	**134,532**	**134,532**
	-	-	-	-	-	**-**	**16,375**
	-	-	-	-	-	**-**	**560,357**
	928	37,439	3,708	6,292	-	**47,439**	**64,728**
	(15,149)	374,063	39,997	12,357	266,575	**692,992**	**4,761,959**
	-	-	-	-	-	**-**	**2,577,827**
	-	-	-	-	-	**-**	**642,372**
	-	-	-	-	-	**-**	**72,607**
	-	-	-	-	-	**-**	**117,845**
	-	-	-	-	-	**-**	**3,528**
	2,381	10,987	3,407	3,967	-	**18,361**	**21,364**
	-	316,311	20,174	-	(228,355)	**108,130**	**108,130**
	-	60,035	-	46,797	177,241	**284,073**	**284,073**
	-	1,987	-	85,114	-	**87,101**	**87,101**
	-	-	-	-	187,477	**187,477**	**187,477**
	14,148	304	418	784	27,939	**29,445**	**46,227**
	-	-	-	-	-	**-**	**355,699**
	16,529	389,624	23,999	136,662	164,302	**714,587**	**4,504,250**
	(31,678)	(15,561)	15,998	(124,305)	102,273	**(21,595)**	**257,709**
	-	(2,032)	8,647	122,575	-	**129,190**	**-**
	(13,660)	88,408	18,840	11,755	(10,163)	**108,840**	**-**
	(13,660)	86,376	27,487	134,330	(10,163)	**238,030**	**-**
	(45,338)	70,815	43,485	10,025	92,110	**216,435**	**257,709**
	839,039	160,200	234,934	37,398	1,999,426	**2,431,958**	**4,040,178**
	$ 793,701	**$ 231,015**	**$ 278,419**	**$ 47,423**	**$ 2,091,536**	**$ 2,648,393**	**$ 4,297,887**

State of Indiana
Combined Statement of Current Fund Revenues, Expenditures and Other Changes
Discretely Presented Component Units - Colleges and Universities
For the Fiscal Year Ended June 30, 2001
(amounts expressed in thousands)

	Current funds		
	Unrestricted	Restricted	Total current funds
Revenues:			
Student tuition and fees	$ 968,527	$ 3,466	**$ 971,993**
Governmental appropriations	1,209,054	65,359	**1,274,413**
Federal, state and local grants and contracts	53,861	565,763	**619,624**
Auxiliary services	515,126	-	**515,126**
Sales and services	131,056	16,200	**147,256**
Investment and endowment income	48,268	14,298	**62,566**
Other gifts and grants	2,330	85,038	**87,368**
Other revenue	195,070	15,610	**210,680**
Total revenues	3,123,292	765,734	**3,889,026**
Expenditures and mandatory transfers:			
Educational and General:			
Instruction and departmental research activities	1,176,016	81,378	**1,257,394**
Research	59,481	270,066	**329,547**
Academic support	264,481	27,945	**292,426**
Operation and maintenance of plant	245,615	430	**246,045**
Student Aid, Scholarships and fellowships	92,432	169,599	**262,031**
Public service	58,312	184,588	**242,900**
Student services	113,843	3,309	**117,152**
Administrative and institutional support	256,266	5,222	**261,488**
Other expenditures	20,942	1,124	**22,066**
Total educational and general	2,287,388	743,661	**3,031,049**
Auxiliary enterprises:			
Expenditures	543,731	221	**543,952**
Mandatory transfers	136,652	(7,423)	**129,229**
Total current fund expenditures and mandatory transfers	2,967,771	736,459	**3,704,230**
Other transfers and additions (deductions):			
Excess (deficit) of restricted receipts over transfers to revenues	-	(5,609)	**(5,609)**
Transfers from (to) other funds	(107,907)	11,370	**(96,537)**
Total other transfers and additions (deductions)	(107,907)	5,761	**(102,146)**
Increase (decrease) in fund balance	**$ 47,614**	**$ 35,036**	**$ 82,650**

The notes to the financial statements are an integral part of this statement.

STATE OF INDIANA

Notes to the Financial Statements and Required Supplementary Information
June 30, 2001

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by generally accepted accounting principles, these financial statements present the government (State of Indiana) and its component units (entities for which the government is considered to be financially accountable). Blended component units, although legally separate entities, are in substance part of the government's operations; data from these units are combined with data of the primary government. Discretely presented component units are reported in four separate columns, one column for the governmental fund type, one for proprietary fund types, one for pension trust fund types, and one for colleges and universities, in the combined financial statements. This is to emphasize that, as well as legally separate from the government, they also provide services to and benefit local governments and/or the citizens of the State of Indiana. Of the component units, the Housing Finance Authority has a December 31, 2000 year end.

Blended Component Units.

The following are blended component units of the State of Indiana. The primary government appoints a voting majority of their boards and is able to impose its will. Although they are legally separate from the State, the units are reported as if they were part of the State because they provide services entirely or almost entirely to the State. All of these component units are audited by auditors other than the State Board of Accounts.

The Indiana Transportation Finance Authority (ITFA) was established to include the construction, reconstruction and improvement of all toll roads, toll bridges, state highways, bridges, and streets and roads. The Authority was further authorized to finance improvements related to an airport or aviation-related property or facilities including the acquisition of real property. The Authority is reported in various governmental funds and an enterprise fund.

The Recreational Development Commission was created to provide funds for projects involving the Department of Natural Resources' (DNR) properties. The five member commission includes the Treasurer of State, Director of DNR and three governor appointees. The Commission is reported as an internal service fund.

The State Lottery Commission of Indiana is composed of five members appointed by the governor. Net proceeds from the Lottery are distributed to the State to be used to supplement teachers' retirement, pension relief, and the Build Indiana Fund. A portion of the Build Indiana Fund is then used to supplement Motor Vehicle Excise Tax Replacement. The Commission is reported as an enterprise fund.

The State Office Building Commission was created to issue revenue bond debt obligations to provide funds for financing the implementation of the Indiana Government Center Master Plan and to construct certain correctional facilities. The Commission is reported as an internal service fund.

Discretely Presented Component Units.

The following are discretely presented component units of the State of Indiana. The primary government appoints a voting majority of their boards and is able to impose its will. All component units, except colleges and universities and the pension trust funds, are audited by outside auditors.

The Indiana Development Finance Authority (IDFA) provides job-creating industrial development projects with access to capital markets where adequate financing is otherwise unavailable. The Authority is governed by a board consisting of the Lieutenant Governor, the Treasurer of State, and seven members appointed by the Governor. The Authority is reported as a governmental fund.

The Indiana Secondary Market for Education Loans, Inc. (ISM) was formed at the request of the Governor to purchase education loans in the secondary market. The Governor appointed the original Board of Directors. The Indiana Secondary Market for Education Loans provides in its articles of incorporation that changes in the composition of its directors or in its bylaws are subject to the approval of the Governor. The unit is reported as a proprietary fund.

The Indiana Board for Public Depositories was established to ensure the safekeeping and prompt payment of all public funds deposited in Indiana banks. The Board, consisting of the Governor, Treasurer of State, Auditor of State, Chairman of the Commission for Financial Institutions, State Examiner of the State Board of Accounts and four members appointed by the Governor, provides insurance on public funds in excess of the $100,000 Federal Deposit Insurance Corporation limit. The unit is reported as a proprietary fund.

The Indiana Bond Bank, created in 1984, is controlled by a board composed of the Treasurer of State, Director of the Department of Financial Institutions and five appointees of the governor. The Bond Bank issues debt obligations and invests the proceeds in various projects of state and local governments. The unit is reported as a proprietary fund.

The Indiana Housing Finance Authority was created in 1978 for the purpose of financing residential housing for persons and families of low and moderate incomes. The Authority consists of the Director of the Department of Financial Institutions, the Director of the Department of Commerce, the State Treasurer and four persons appointed by the governor. The unit is reported as a proprietary fund.

The Indiana Housing Finance Authority and the Indiana Bond Bank were determined to be significant for note disclosure purposes involving the discretely presented proprietary component units.

Effective July 1, 2000, the Public Employees Retirement Fund (PERF) became an independent body corporate and politic. PERF is not a department or agency for the State but is an independent instrumentality exercising essential government functions. The PERF board is composed of five trustees appointed by the governor. The board of trustees administers the following retirement funds: Public Employees Retirement Fund, Judges Retirement System Fund, Excise Police and Conservation Enforcement Officers' Retirement Fund, the 1977 Police Officers' and Firefighters' Pension and Disability Fund, the Legislators' Retirement System Defined Benefit Fund, the Legislators' Retirement System Defined Contribution Fund, and the Prosecuting Attorneys' Retirement Fund. For more information on PERF see Note IV (J) Employee Retirement Systems and Plans. All of these funds have been aggregated for presentation in the Discretely Presented Component Units' financial statements.

Effective July 1, 2000, the Teachers Retirement Fund (TRF) became an independent body corporate and politic. TRF is not a department or agency for the State but is an independent instrumentality exercising essential government functions. The TRF board is composed of five trustees appointed by the governor. For more information on TRF see Note IV (K) Employee Retirement Systems and Plans.

The Public Employees Retirement Fund and the Teachers Retirement Fund were determined to be significant for note disclosure purposes involving the discretely presented proprietary component units.

Each of the seven colleges and universities included in this report was established by individual legislation to provide higher education opportunities to the citizens of Indiana. The authority to administer the operations of each institution is granted to a separate board of trustees for each of the seven institutions. The number and makeup of the board of trustees of each college and university is prescribed by legislation specific for that institution. Four universities have nine member boards; two have ten member boards; Indiana Vocational Technical College has a thirteen-member board of trustees. Appointments to the boards of trustees are made by the governor and by election of the alumni of the respective universities.

Purdue University and Indiana University were determined to be significant for note disclosure purposes involving the colleges and universities.

The financial statements of the individual component units may be obtained from their administrative offices as follows:

Indiana Transportation Finance Authority One North Capital Suite 320 Indianapolis, IN 46204	Recreational Development Commission Government Center South, W256 402 W. Washington Street Indianapolis, IN 46204	State Lottery Commission of Indiana Pan Am Plaza 201 S. Capitol, Suite 1100 Indianapolis, IN 46225
State Office Building Commission Government Center South, W478 402 W. Washington Street Indianapolis, IN 46204	Indiana Development Finance Authority One North Capitol, Suite 320 Indianapolis, IN 46204-2226	Secondary Market for Education Loans, Inc. 8425 Woodfield Crossing Boulevard Suite 401 Indianapolis, IN 46204
Board for Public Depositories 101 W. Washington St., Suite 1301E Indianapolis, IN 46204	Indiana Bond Bank 2980 Market Tower 10 West Market St. Indianapolis, IN 46204	Indiana Housing Finance Authority 115 West Washington Street Suite 1350, South Tower Indianapolis, IN 46204
Accounting Services 1062 Freehafer Hall Purdue University West Lafayette, IN 47907-1062	Richard W. Schmidt Vice President – Business Affairs University of Southern Indiana 8600 University Boulevard Evansville, IN 47712	Office of the Vice President and Chief Financial Officer Bryan Hall, Rm. 204 Indiana University Bloomington, IN 47405-1202

Mark Husk
Director of Budgeting and Accounting
Indiana Vocational Technical
College
Indianapolis, IN 46206-1763

Phillip Rath
Vice President-Financial
Services
Vincennes University
1002 North 1st Street
Vincennes, IN 47591

William A. McCune, Controller
Administration Bldg., 103A
2600 University Avenue
Ball State University
Muncie, IN 47305

Office of the Vice President
for Planning and Budgets
Parsons Hall, RM. 223
Indiana State University
Terre Haute, IN 47809

State of Indiana
Public Employees' Retirement Fund
143 West Market Street
Indianapolis, IN 46204

Indiana State Teachers' Retirement Fund
150 West Market Street, Suite 300
Indianapolis, IN 46204

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the government are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The government has the following fund types and account groups:

Governmental funds are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and related liabilities, and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Revenue relating to nonexchange transactions are susceptible to accrual when all recognition criteria have been met and the resources are available. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Governmental funds include the following fund types:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue* funds account for revenue sources that are legally restricted to expenditure for specific purposes (not expendable trusts or major capital projects).

The *debt service* fund accounts for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds.

The *capital projects* funds account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Expenses are recorded at the time liabilities are incurred. The government applies all applicable FASB pronouncements issued before November 30, 1989 and those issued after which do not contradict any previously issued GASB pronouncement in accounting and reporting for its proprietary operations. Proprietary funds include the following fund types:
Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Internal service funds account for operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis.

Fiduciary funds account for assets held by or on behalf of the government in a trustee capacity or as an agent on behalf of others.

The *expendable trust funds* are accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable trust funds account for assets where both the principal and interest may be spent.

The *nonexpendable trust funds* and *pension trust funds* are accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting. Nonexpendable trust funds account for assets of which the principal may not be spent. The pension trust fund accounts for the assets of the government's employees pension plan.

The *agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

Account Groups. The *general fixed assets account group* is used to account for fixed assets not accounted for in proprietary or trust funds. The *general long-term debt account group* is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.

C. Assets, Liabilities and Equity

1. Deposits, Investments and Securities Lending

For purposes of reporting cash flows, cash and cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and near their maturity (generally three months or less from the date of acquisition). Cash and cash equivalents are stated at cost, which approximates fair value.

Cash balances of most State funds are commingled in general checking accounts and several special purpose banking accounts. The available cash balance not necessary beyond immediate need is pooled and invested. Interest earned from investments purchased with pooled cash is deposited in the general fund, except as otherwise provided by statute.

Investments and secured lending transactions are stated at fair value. However, money market investments and participating interest-earning investment contracts that mature within one year of acquisition are reported at amortized cost. Fair value is determined by quoted market prices. In addition, the pension trust funds and securities lending transactions are stated at fair value.

Indiana Code 5-13-9 authorizes the Treasurer to invest in deposit accounts issued or offered by a designated depository; securities backed by the full faith and credit of the United States Treasury; and repurchase agreements that are fully collateralized, as determined by the current market value computed on the day the agreement is effective, by interest-bearing obligations that are issued, fully insured or guaranteed by the United States or any U.S. government agency.

The Treasurer of State is authorized by statute to accept as collateral safekeeping receipts for securities from: (1) a duly designated depository or (2) a financial institution located either in or out of Indiana, having physical custody of securities, with a combined capital and surplus of at least $10 million, according to the last statement of condition filed by the financial institution with its governmental supervisory body. The Treasurer may not deposit aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than 50 percent of the combined capital, surplus and undivided profits of that depository as determined by the last published statement.

Bond indentures of the Indiana Transportation Finance Authority authorize investments in obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, tax exempt securities, savings accounts, certificates of deposit (CDs) and repurchase agreements (repos) secured by government securities.

The State Office Building Commission trust indentures authorize obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, tax exempt securities, new Housing Authority bonds, savings and CDs, repos and reverse repos secured by government securities, investment agreements and commercial paper. Indiana Code permits investment in shares of management type investment trusts provided those trusts invest in securities of the types specified above.

Money held in the trust fund of the State Lottery Commission for the deferred payment of prizes may be invested by the Treasurer of State in annuities sold by an insurance company licensed to do business in Indiana (A.M. Best rating of A or equivalent) or in direct U.S. Treasury obligations.

Investments of the Recreational Development Commission will be kept in depositories designated as depositories for funds of the State as selected by the Commission, in the manner provided by IC 5-13-9.

The investments of the State's retirement systems are governed by separate investment guidelines. Investments which are authorized for the State Teacher's Retirement Fund include: U.S. Treasury and Agency obligations, corporate bonds/notes, repurchase agreements, mortgage securities, commercial paper, common stock, international equity, and bankers' acceptances. Investments which are authorized for the State Police Retirement fund include: U.S. Treasury and Agency obligations, common stocks, repurchase agreements, mortgage securities, and bankers acceptances. The remaining six retirement systems and the Pension Relief Fund are administered by the Public Employees' Retirement Fund Board. The Board is required to diversify investments in accordance with prudent investment standards. Investment guidelines, issued by the Board, contain limits and goals for each type of investment portfolio, and specify prohibited transactions. These guidelines authorized investments of: U.S. Treasury and Agency obligations, corporate bonds/notes, common stocks, repurchase agreements, mortgage securities, commercial paper, and bankers' acceptances.

Certain deposits of State funds are entrusted to an outside agent to invest and disburse as per federal requirements or contract. The State Revolving Fund is held by a fiscal agent and included as a special revenue fund.

2. Receivables and Payables

Assets relating to derived tax revenues, including individual gross income taxes, corporation income taxes, sales taxes, motor fuel and motor carrier surcharge taxes, and alcoholic beverage taxes, are recognized in the period when the underlying exchange transaction has occurred or when the resources are received, whichever is first. Assets relating to imposed nonexchange revenues are recognized in the period when an enforceable legal claim has arisen or the resources are received, whichever is first. Government mandated and voluntary nonexchange transactions, including federal government mandates on the state, certain grants and entitlements, and most donations, are recognized in the period when all applicable eligibility requirements have been met. Other assets and liabilities are recognized when measurable and available.

The State of Indiana does not collect property taxes, which are collected by local units of government; a minor portion is remitted to the state semiannually (June and December) for distribution to the State Fair Commission, Department of Natural Resources and Family and Social Services Administration.

3. Interfund Transactions

The State has the following types of interfund transactions:

Quasi-external Transactions **-** Charges for services rendered by one fund to another that are treated as revenues of the recipient fund and expenditures/expenses of the disbursing fund.

Residual Equity Transfers **-** Nonroutine or nonrecurring transfers between funds are reported as additions to or deductions from fund equity.

Operating Transfers **-** Legally authorized transfers other than residual equity transfers are reported as operating transfers.

The types of assets and liabilities resulting from these transactions are:

Advances from / to **-** These are balances arising from the long-term portion of interfund transactions, including loans.

Interfund receivables / payables **-** These are balances arising from the short-term portion of interfund transactions.

Due from / to **-** These are balances arising in connection with quasi-external transactions or reimbursements. Balances relating to discretely presented component units are presented as 'Due from / to component units.'

4. Inventories and Prepaid Items

Inventories for the Inns & Concessions, State Lottery Commission, Institutional Industries and Administration Services Revolving are valued at cost; Toll Road inventories are valued at lower of cost or market. The costs of governmental fund-type inventories are recorded as expenditures when purchased. The first in/first out (FIFO) method is used for valuation of inventories.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Restricted Assets

Certain assets of the following proprietary funds are classified as restricted assets because their use is completely restricted by bond indentures, contracts or statute.

State Office Building Commission - designated for construction projects or the liquidation of revenue bonds payable.
Recreational Development Commission - designated for the costs of expanding and, renovating, and improving recreational facilities at Indiana State parks.
State Lottery Commission - reserved for the prize pool of the Multi-State Lottery Association.
Toll Roads - held for future debt service, transportation improvements and construction.
Indiana Housing Finance Authority - restricted or pledged as provided by bond resolutions and indentures of the trust agreements.
Indiana Bond Bank – restricted to repayment of bonds and notes payable.

6. Fixed Assets

Fixed assets used in governmental fund types with a cost of $5,000 or greater are recorded in the general fixed assets account group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated. Interest incurred during construction is not capitalized on general fixed assets.

Public domain (infrastructure) general fixed assets (e.g., roads, bridges, highway land and other assets that are immovable and of value only to the government) are not capitalized.

The cost of normal maintenance and repairs that do not add to the value or materially extend the life of the asset are not included in the general fixed assets account group or capitalized in the proprietary funds.

Property, plant and equipment in the proprietary and pension trust funds are recorded at cost or estimated historical cost. Property, plant and equipment donated to proprietary funds are recorded at their estimated fair value at the date of donation. Capital grants to the Inns & Concessions (grants restricted by the grantor for the acquisition and/or construction of fixed assets) are recorded as contributed capital; since these contributions are from the primary government, depreciation expense for these assets is included with depreciation of other assets. Contributed capital is reduced by the cost of assets returned to the contributor.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment are depreciated in the proprietary and similar trust funds using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	20-40
Improvements other than buildings	10-20
Furniture, machinery and equipment	3-10
Software	3
Motor Pool Vehicles	10 ¢ / mile

7. Compensated Absences

Full-time employees of the State of Indiana are permitted to accumulate earned but unused vacation and sick pay benefits. Vacation leave accumulates at the rate of one day per month and sick leave at the rate of one day every two months plus an extra day every four months. Bonus vacation days are awarded upon completion of five, ten and twenty years of employment. Personal leave days are earned at the rate of one day every four months; any personal leave accumulated in excess of three days automatically becomes part of the sick leave balance. Upon separation of service, in good standing, employees will be paid for a maximum of thirty (30) unused vacation leave days.

No liability is reported for unpaid accumulated sick leave. Vacation and personal leave and salary-related payments that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. Vacation leave is accrued when incurred in proprietary funds and reported as a fund liability.

8. Long-Term Obligations

Long-term debt of governmental funds is reported at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

9. Fund Equity

Reservations of fund balance represent those portions of fund balances that are legally segregated for a specific purpose or are not appropriable. In the accompanying balance sheet, reserves for encumbrances and tuition support are examples of the former. Reserves for intergovernmental loans and advances receivables are examples of the latter. The following is a brief description of each reserve and the purpose for which it was established:

> *Reserve for Tuition Support* - established to recognize that the legislature has set aside money, as determined by the State Budget Agency, for paying the monthly distributions to local school units at the beginning of the succeeding fiscal year.

Reserve for Encumbrances - established to recognize money set aside out of one year's budget for goods and/or services ordered during that year that will not be paid for until they are received in a subsequent year.

Reserve for Special Purposes – established to recognize legal limitations that specify the purpose or purposes for which resources derived from government-mandated and voluntary nonexchange transactions are to be used.

Reserve for Prepaid Items – established to recognize payments made in advance of receipt of goods and services in an exchange transaction.

Reserve for Advances - established to recognize long-term loans and advances issued to other funds within this government and therefore not currently available for expenditure.

Reserve for Intergovernmental Loans - established to recognize that the legislature has set aside money to lend to local units of government for specific purposes. These amounts are loans to individual school corporations, cities, towns, counties and other governmental units. Additionally, the general fund lends money to nonprofit entities. All loans require review and approval of the Board of Finance prior to issuance.

Reserve for Debt Service, Special Purposes--established to recognize that certain amounts have been set aside for debt service and for purposes specific to a particular component.

Designations of fund balance represent tentative management plans that are subject to change.

The proprietary funds' contributed capital represent equity acquired through capital grants and capital contributions from other funds.

10. Memorandum Only - Total Columns

Total columns on the general purpose financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Legislation requires that the Governor submit a budget biennially to be adopted by the General Assembly for the ensuing two-year period. The budget covers the general fund and most special revenue funds, but excludes various special revenue funds that are not subject to appropriation pursuant to state law. Funds excluded are the Pension Relief Fund, the Transportation Finance Authority - Highway Revenue Bonds, and the State Revolving Fund. In addition there are various “Other Special Revenue Funds” excluded which are the Public Safety Death Benefit Fund, the Armory Board, the Recreation funds at state institutions and mental facilities, and the Transportation Finance Authority - Airport Facilities and Aviation Technology Funds. The General Assembly enacts the budget through passage of specific appropriations, the sum of which may not exceed estimated revenues. Appropriations for programs funded from special revenue funds may allow expenditures in excess of original appropriations to the extent that revenues collected exceed estimated revenues.

The original budget is composed of the budget bill and continuing appropriations. The budget bill is enacted as the Appropriations Act that the Governor may veto, subject to legislative override. Continuing appropriations report budgeted expenditures as equal to the amount of revenues received during the year plus any balances carried forward from the previous year as determined by statute. Except as specifically provided by statute, appropriations or any part thereof remaining unexpended and unencumbered at the close of any fiscal year will lapse and be returned to the fund from which it was appropriated.

The final budget is composed of budgeted amounts as adopted and as amended by supplemental appropriations or appropriation transfers that were necessary during the current year. The State Board of Finance, which consists of the Governor, Auditor of State and Treasurer of State, is empowered to transfer appropriations from one fund of the State to another, with the exception of trust funds. The State Budget Agency may transfer, assign, and reassign almost any appropriation, except those restricted by law; but only when the uses and purposes of the funds concur. Excess general fund revenue is used to cover non-budgeted non-recurring expenditures and overdrafts of budgeted amounts at the end of the current year. Capital appropriations are initially posted to general government. As projects are approved by the State Budget Committee the appropriations are transferred to the function of government from which they are disbursed. These actions are considered supplemental appropriations, therefore, expenditures do not exceed appropriations for individual funds.

The legal level of budgetary control (the level on which expenditures may not legally exceed appropriations) is maintained at the fund level by the State Budget Agency. When budgets are submitted for each fund center, certain recurring expenditures are not budgeted (medical service payments, unemployment benefits, tort claims) according to instructions from the State Budget Agency to the various agencies. The Budget Agency monitors all fund centers regularly in addition to monitoring excess general fund revenue that will be available at the end of the fiscal year to cover the non-budgeted, recurring expenditures.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities. Funds encumbered in the prior year are carried forward in the ensuing year's budget. The availability of unencumbered funds in the subsequent year is dependent upon the legislative or administrative controls established when the fund center was originated.

B. Budget/GAAP Reconciliation

The cash basis of accounting (budgetary basis) is applied to each budget. The budgetary basis differs from GAAP. The major differences between budgetary (non-GAAP) basis and GAAP basis are:

	General Fund	Special Revenue Funds
Excess of revenues and other financing sources over (under) expenditures and other financing uses (budgetary basis)	$ (1,050,778)	$ 190,972
Adjustments necessary to convert the results of operations on a budgetary basis to a GAAP basis are:		
Revenues are recorded when earned (GAAP) as opposed to when cash is received (budgetary)	(43,543)	(8,396)
Expenditures are recorded when the liability is incurred (GAAP) as opposed to when payment is made (budgetary)	5,114	66,029
Funds not subject to legally adopted budget	-	154,622
Excess of revenues and other financing sources over (under) expenditures and other financing uses (GAAP basis)	$ (1,089,207)	$ 403,227

C. Deficit Fund Balance/Retained Earnings

At June 30, 2001, various funds had deficit fund balance/retained earnings caused by temporary cash overdrafts from pooled cash and investments and the posting of accruals to the balance sheet. Temporary cash overdrafts are reported as an interfund payable to the general fund. An exception to this is the Bureau of Motor Vehicles Commission fund which has a deficit equity balance of $66.1 million. $63.3 million of this was caused by long-term expenditures in excess of fund revenues. The funds used to cover the $63.3 million deficit are reported as an Advance from the Motor Vehicle Highway Fund.

Fund	**Overdraft from pooled cash**	**Accrual deficits**
Special revenue funds:		
County Welfare Administration	$ (716)	$ (9,597)
Medicaid Assistance	(5,252)	(29,725)
Federal Food Stamp Program	(1,363)	(199)
Property Tax Replacement Fund	-	(504,184)
Enterprise funds:		
Inns and Concessions	-	(104)
Internal service funds:		
Recreational Development Commission	-	(333)
State Police Benefit Fund	-	(17,599)
Expendable trust funds:		
Abandoned Property Fund	-	(8,238)

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits, Investments and Securities Lending

The deposits with financial institutions for the primary government and its discretely presented component units at year end were entirely insured by federal depository insurance, state depository insurance, or collateralized securities held by the State or by an agent in the State's name.

Investment are categorized into these three categories of credit risk: (1) Insured or registered, or securities held by the State (or its component unit) or an agent in the State's or unit's name. (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's or unit's name. (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the State's or unit's name.

Blended component units that are included in the financial statements as described in Section 1(A) account for $453.8 million of the primary government's total investments included in these totals.

Primary Government

	Category 1	Category 2	Category 3	Fair Value
Commercial paper				
Not on securities loan	$ 5,923	$ -	$ 515	$ 6,438
Corporate debt/equity securities				
Not on securities loan	26,882	-	22,545	49,427
Repurchase agreements				
Not on securities loan	7,771	263,024	-	270,795
US Treasury & agency obligations				
Not on securities loan	253,584	635,900	441,651	1,331,135
Mortgage securities				
Not on securities loan	136	-	-	136
Totals	$ 294,296	$ 898,924	$ 464,711	1,657,931
Investments - not categorized				
Investments held by broker-dealers under securities loans				
US Treasury & agency obligations				2,852,039
Securities lending S-T cash collateral investment pool				2,916,052
Mutual funds				1,040,992
Annuity/investment contracts				537,951
Total primary government				$ 9,004,965

The categories of investments for the Significant Discretely Presented Component Units is as follows:

Significant Discretely Presented Component Units

	Category 1	Category 2	Category 3	Fair Value
Commercial paper				
Not on securities loan	$ 14,480	$ 381,582	$ 90,901	$ 486,963
Corporate debt/equity securities				
Not on securities loan	11,069,118	3,287	822,594	11,894,999
On securities loan	105	111,988	104,472	216,565
Foreign bonds				
Not on securities loan	119,957	-	-	119,957
Repurchase agreements				
Not on securities loan	25,000	76,780	428,851	530,631
On securities loan	45,683	477,140	-	522,823
US Treasury & agency obligations				
Not on securities loan	1,920,023	17,707	24,992	1,962,722
On securities loan	1,866	128,402	139,748	270,016
Mortgage securities				
Not on securities loan	1,142,335	2,403	-	1,144,738
Totals	$ 14,338,567	$ 1,199,289	$ 1,611,558	17,149,414
Investments - not categorized				
Guaranteed investment contracts and other				192,059
Investments held by broker-dealers under securities loans				
Equity securities				703,871
Corporate bonds				165,132
US Treasury & agency obligations				1,279,834
Foreign bonds				14,224
Mortgage securities				4,054
Securities lending S-T cash collateral investment pool				28,177
Securities lending S-T non-cash collateral investment pool				2,044
Mutual funds				83,036
Total significant discretely presented component units				$ 19,621,845

State statutes and policies permit the State to lend securities to broker-dealers and other entities (borrowers) for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The State's custodial banks manage the securities lending programs and receive securities or cash as collateral. The types of securities lent during the year may include U.S. Treasury and agency obligations, corporate bonds/notes, and foreign bonds. Collateral securities and cash are initially pledged at 102 percent of the market value of the securities lent. Generally, there are no restrictions on the amount of assets that can be lent at one time, except for the Public Employees Retirement Fund and the State Teachers Retirement Fund (discretely presented component units), which allow no more than 40% be lent at one time. The collateral securities cannot be pledged or sold by the State unless the borrower defaults, but cash collateral may be invested. At year-end, the State had no credit risk exposure to a borrowers because the amount the State owes the borrowers exceed the amounts the borrowers owe the State. Cash collateral is generally invested in securities of a longer term with the mismatch of maturity's generally 0-15 days. The contracts with the State's custodians requires them to indemnify the funds if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the funds for income distributions by the securities' issuers while the securities are on loan.

B. Interfund Transactions

The composition of interfund balances as of June 30, 2001 is as follows:

Due From and Due To Other Funds

	Due from other funds	Due to other funds
General fund:		
Internal service funds:		
Institutional Industries	$ -	$ 1,814
Administrative Services Revolving Fund	-	1,491
Total general fund	-	3,305
Special revenue funds:		
Debt service funds:		
Transportation Finance Authority:		
Aviation Technology bonds	-	318
Airport Facilities bonds	-	3,132
Internal service funds:		
Institutional Industries	-	722
Administrative Services Revolving Fund	-	3,084
Total special revenue funds	-	7,256
Capital projects funds:		
Internal service funds:		
Institutional Industries	-	2
Administrative Services Revolving Fund	-	3
Total capital projects funds	-	5
Debt service funds:		
Special revenue funds:		
Other	3,450	-
Total debt service funds	3,450	-
Internal service funds:		
General fund	3,305	-
Special revenue funds:		
County welfare administration	693	-
Motor Vehicle Highway Fund	918	-
State and Federal Welfare Assistance	7	-
Bureau of Motor Vehicles Commission	35	-
Health and environmental programs	56	-
State Highway Department	244	-
Tobacco Settlement Fund	3	-
Other	1,850	-
Capital projects funds:		
Build Indiana Fund	2	-
Other	3	-
Expendable trust funds:		
Abandoned Property Fund	-	-
Internal service funds:		
Institutional Industries	-	5
Administrative Services Revolving Fund	5	-
Total internal service funds	7,121	5
Total due from / to	**$ 10,571**	**$ 10,571**

Component Units

	Due from primary government	Due to component unit
Special revenue funds:		
Discretely presented component units proprietary:		
Indiana Bond Bank	$ -	$ 638,853
Discretely presented component units pension trust:		
Public Employees Retirement Fund	-	934
Total special revenue funds	-	639,787
Enterprise funds:		
Discretely presented component units pension trust:		
State Teachers' Retirement Fund	-	7,500
Total enterprise funds	-	7,500
Internal service funds:		
Discretely presented component units pension trust:		
Public Employees Retirement Fund	-	78
Total internal service funds	-	78
Discretely presented component units proprietary:		
Special revenue funds:		
State Revolving Fund	638,853	-
Total discretely presented component units proprietary	638,853	-
Discretely presented component units pension trust:		
Special revenue funds:		
Pension Relief Fund	858	-
Other	76	-
Enterprise funds:		
State Lottery Commission	7,500	
Internal service funds:		
State Employee Death Benefit Fund	78	
Total discretely presented component units pension trust	8,512	-
Total due from / to	**$ 647,365**	**$ 647,365**

The composition of interfund balances as of June 30, 2001 is as follows: (continued)

Within Component Units

	Due from component unit	Due to component unit
Discretely presented component units pension trust:		
Pension trust		
Public Employees' Retirement Fund	$ 5,557	$ 5,405
State Teachers' Retirement Fund	5,405	5,557
Total discretely presented component units pension trust	10,962	10,962
Total due from / to	**$ 10,962**	**$ 10,962**

Advances To and Advances From Other Funds

	Advances to other funds	Advances from other funds
General fund:		
Special revenue funds:		
Other	$ 2,408	$ -
Total general fund	2,408	-
Special revenue funds:		
General fund	-	2,408
Special revenue funds:		
Motor Vehicle Highway Fund	63,277	-
Bureau of Motor Vehicles Commission	-	63,277
Other	698	698
Internal service funds:		
Recreational Development Commission	500	-
Total special revenue funds	64,475	66,383
Enterprise funds:		
Internal service funds:		
Recreational Development Commission	-	300
Total enterprise funds	-	300
Internal service funds:		
Special revenue funds:		
Other	-	500
Enterprise funds:		
Inns and concessions	300	-
Total internal service funds	300	500
Total advances	**$ 67,183**	**$ 67,183**

Interfund receivables and payables

	Interfund receivable	Interfund payable
General fund:		
Special revenue funds:		
County Welfare Administration	$ 716	$ -
Medicaid Assistance	5,252	-
Federal Food Stamp Program	1,363	-
Total general fund	7,331	-
Special revenue funds:		
General fund	-	7,331
Capital projects funds:		
Other	8,596	-
Enterprise funds:		
State Lottery Commission	7,500	-
Total special revenue funds	16,096	7,331
Capital projects funds:		
Special revenue funds:		
State Highway Department	-	8,596
Enterprise funds:		
State Lottery Commission	21,385	-
Total capital projects funds	21,385	8,596
Enterprise funds:		
Special revenue funds:		
Pension Relief Fund	-	7,500
Capital projects funds:		
Build Indiana Fund	-	21,385
Total enterprise funds	-	28,885
Total interfund receivable / payable	**$ 44,812**	**$ 44,812**

A summary of interfund operating transfers for the year ended June 30, 2001 is as follows:

	Operating transfers in	Operating transfers (out)	Operating transfers in - from primary government	Operating transfers (out) - to primary government	Operating transfers in - from component units	Operating transfers (out) - to component units	Net transfers
Governmental funds:							
General fund	$ 2,102,277	$ (3,254,432)	$ -	$ -	$ -	$ (7,169)	**$ (1,159,324)**
Special revenue funds	4,816,655	(3,583,741)	-	-	-	-	**1,232,914**
Debt service funds	63,166	-	-	-	-	-	**63,166**
Capital projects funds	368,363	(408,550)	-	-	-	(16,205)	**(56,392)**
Proprietary funds:							
Enterprise funds	-	(125,636)	-	-	-	(30,000)	**(155,636)**
Internal service funds	20,674	(16,690)	-	-	-	-	**3,984**
Trust and agency funds:			-				
Expendable trust and agency	1,440	(39,640)	-	-	2,328	-	**(35,872)**
Nonexpendable trust	56,251	(137)	-	-	-	-	**56,114**
Discretely presented component units:							
Governmental	-	-	23,374	-	-	-	**23,374**
Proprietary	-	-	-	(2,328)	-	-	**(2,328)**
Pension trust	-	-	30,000	-	-	-	**30,000**
	$ 7,428,826	**$ (7,428,826)**	**$ 53,374**	**$ (2,328)**	**$ 2,328**	**$ (53,374)**	**$ -**

C. Taxes Receivable/Tax Refunds Payable

Taxes Receivable/Tax Refunds Payable as of year end, including the applicable allowances for uncollectible accounts, are as follows:

	General fund	**Special revenue funds**	**Capital projects funds**	**Expendable trust**	**Total**
Income taxes	$ 730,708	$ 5,095	$ -	$ -	**$ 735,803**
Sales taxes	322,803	225,449	-	-	**548,252**
Fuel taxes	-	80,910	-	-	**80,910**
Gaming taxes	-	758	-	-	**758**
Unemployment - employers' contributions	-	-	-	16,006	**16,006**
Inheritance taxes	38,628	-	-	-	**38,628**
Alcohol and tobacco taxes	6,609	66,915	1,623	-	**75,147**
Insurance taxes	1,250	-	-	-	**1,250**
Financial institutions taxes	-	36,058	-	-	**36,058**
Other taxes	165	1,278	-	-	**1,443**
Total taxes receivable	1,100,163	416,463	1,623	16,006	**1,534,255**
Less allowance for uncollectible accounts	(56,851)	(23,623)	(22)	-	**(80,496)**
Net taxes receivable	**$ 1,043,312**	**$ 392,840**	**$ 1,601**	**$ 16,006**	**$ 1,453,759**
Tax refunds payable	**$ 35,194**	**$ 2,805**	**$ -**	**$ -**	**$ 37,999**

D. Fixed Assets

Activity in the general fixed assets account group for the State for the year ended June 30, 2001, was as follows. Figures include assets with an individual cost of $5,000 or more. Infrastructure assets are not included.

	Balance, July 1, As restated	Additions	Deletions	Balance, June 30
Land	$ 128,843	$ 3,392	$ 197	$ 132,038
Buildings and improvements	1,157,061	35,403	60,928	1,131,536
Furniture, machinery, and equipment	395,935	34,711	21,399	409,247
Total general fixed assets	**$ 1,681,839**	**$ 73,506**	**$ 82,524**	**$ 1,672,821**

The following is a summary of proprietary fund type fixed assets at June 30, 2001. Infrastructure assets are included as they are presented on the respective balance sheets.

	Enterprise funds	Internal service funds
Buildings, land and improvements	$ 116,448	$ 675,909
Infrastructure	471,700	-
Furniture, machinery, and equipment	47,599	41,223
less: accumulated depreciation	(418,432)	(149,143)
Construction in progress	34,694	201,271
Total fixed assets	**$ 252,009**	**$ 769,260**

Fixed assets of the significant discretely presented component units include $2,617 million for Indiana University, less accumulated depreciation of $1,123 million; $1,555 million for Purdue University, less accumulated depreciation of $694 million.

E. Leases

Operating Leases
The State leases building and office facilities and other equipment under non-cancelable operating leases. Total payments for such leases with aggregate payments of $5,000 or more were $39.6 million for the year ended June 30, 2001. A table of future minimum lease payments (excluding executory costs) is presented below.

Capital Leases
The State has entered into various lease agreements with aggregate payments of $5,000 or more to finance the acquisition of buildings, land and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date in the general fixed assets account group. The related lease obligations are reported in the general long-term debt account group.

The future minimum lease obligations, the net present value of these minimum lease payments as of June 30, 2001 and the assets acquired through capital lease during the fiscal year were as follows:

Future minimum lease payments

Year ending June 30,	Operating leases	Capital leases: General Long-Term Debt Account Group	Capital leases: Proprietary funds
2002	$ 38,154	$ 2,607	$ 71
2003	32,844	2,236	62
2004	25,776	1,590	16
2005	19,350	1,231	-
2006	14,737	767	-
Thereafter	76,476	-	-
Total minimum lease payments (excluding executory costs)	**$ 207,337**	**8,431**	**149**
Less:			
Amount representing interest		(920)	(9)
Present value of future minimum lease payments		**$ 7,511**	**$ 140**

Assets acquired through capital lease

	General Long-Term Debt Account Group	Proprietary funds
Machinery and equipment	$ 11,662	$ 373
less accumulated depreciation	-	(234)
	$ 11,662	$ 139

The Indiana Housing Finance Authority, a discretely presented component unit, has future obligations under an operating lease which total $1.4 million. The Indiana Development Finance Authority, a discretely presented component unit, has future obligations under an operating lease which total $.5 million.

Purdue University, a significant discretely presented component unit, also is the lessee for capital leases totaling $40.0 million, of which $10.6 million represents interest; Indiana University's liability for capital leases is $5.8 million , of which $.5 million represents interest.

Indiana University has future obligations under operating leases of $9.0 million.

F. Long-Term Debt

Long-term debt of the general long-term debt account group consists of revenue bond obligations of the Indiana Transportation Finance Authority Highway Revenue Bonds, Airport Facility Bonds, and Aviation Technology Bonds. Other long term obligations of the general long term debt account group include capital lease obligations of governmental funds as presented in Section III(E), net pension obligations, and compensated absence obligations.

Long-term debt of the proprietary funds consists of revenue bonds issued by the State Office Building Commission, the Recreational Development Commission, and the Indiana Transportation Finance Authority Toll Roads. It also includes the non-current portion of prize liability accrued by the Indiana State Lottery Commission. These entities have been established by statute as corporate and politic units with the separate legal authority to finance certain essential governmental functions.

Long-term debt of the significant discretely presented component units consists of bonds issued or backed by the Indiana Development Finance Authority, the Indiana Housing Finance Authority, the Indiana Bond Bank, Indiana University, and Purdue University. As with the entities in the proprietary funds, these entities have the separate legal authority to finance certain essential governmental functions.

Revenue bonds are issued by entities established by statute as corporate and politic units with the separate legal authority to finance certain essential governmental functions. Income from the acquired or constructed assets is used to pay debt service.

General Long-Term Debt Account Group:

Indiana Transportation Finance Authority (ITFA) Highway Revenue Bonds - In 1988 the Transportation Finance Authority was granted the power to construct, acquire, reconstruct, improve and extend Indiana highways, bridges, streets and roads (other than the East-West Toll Road) from proceeds of highway revenue bonds issued by the Authority. The bonds are paid solely from and secured exclusively by the pledge of revenues from leases to the Indiana Department of Transportation of completed highway revenue bond projects. Bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of revenues from the leases of the projects financed out of the bond proceeds, the proceeds of such bonds and the investment earnings thereon. ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

On December 11, 1996, the Indiana Transportation Finance Authority issued Highway Refunding Bonds Series 1996B in the amount of $27.1 million with interest rates from 4.50% to 6%. The refunding debt was used to refund the Series 1992A bonds. A portion of the proceeds was deposited in an escrow fund. As of June 30, 2001, the amount of defeased debt still outstanding but removed from the General Long Term Debt Group was $24.8 million.

On November 15, 2000, the Indiana Transportation Finance Authority issued Highway Revenue Bonds Series 2000 in the par amount of $269.5 million with interest rates from 4.50% to 5.75%. This included $21.9 million of refunding debt and $247.6 million of new money debt. The refunding debt was used to refund in advance of their stated maturity dates the Series 1990A bonds maturing on and after June 1, 2006 and the Series 1993A bonds maturing on and after June 1, 2006. A portion of the proceeds, was deposited in an escrow fund. The $247.6 million new money debt is being used for the payment of construction costs for the Series 2000 projects. As of June 30, 2001, the amount of defeased debt still outstanding but removed from the General Long Term Debt Group was $9.7 million for Series 1990A and $9.2 million for Series 1993A.

Indiana Transportation Finance Authority (ITFA) Airport Facilities Revenue Bonds - In 1991, the General Assembly authorized, under Indiana Code 8-21-12, to finance improvements related to an airport or aviation related property or facilities, including the acquisition of real estate, by borrowing money and issuing revenue bonds. Any bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of revenues from the leases of the projects financed out of the bond proceeds, the proceeds of such bonds and the investment earnings thereon. ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

On February 11, 1992, the Transportation Finance Authority issued bonds in the principal amount of $201.3 million. Additionally, Series 1995A parity bonds in the amount of $29.7 million were issued May 15, 1995, and Series 1996A refunding bonds of $138 million were issued in December, 1996 to partially refund in advance principal under series 1992A. The bonds were issued to finance certain improvements related to the United Airlines maintenance facility at Indianapolis International Airport. These bonds are payable from rental revenues as may be appropriated by the Indiana General Assembly for that purpose.

On December 1, 1996, the Authority issued Airport Facilities Lease Revenue Refund Bonds Series 1996A in the amount of $137.7 million with interest rates from 4.5% to 6%. A portion of the proceeds was deposited in an escrow fund to refund a portion of the 1992 issue. The amount of defeased debt still outstanding but removed from the General Long Term Debt Account Group at June 30, 2001 was $127 million.

Indiana Transportation Finance Authority (ITFA) Aviation Technology Center Lease Bonds, Series A - On November 1, 1992, the Indiana Transportation Finance Authority issued Aviation Technology Center Lease Bonds - Series A, in the principal amount of $11.6 million. These bonds were issued to finance the costs of construction and equipping a new aviation technology center at Indianapolis International Airport. These bonds are payable from lease revenues as may be appropriated from the Indiana General Assembly for that purpose.

Changes in Long-Term Liabilities: During the year ended June 30, 2001, the following changes occurred in liabilities reported in the general long-term debt account group.

	Balance, July 1, as Restated	Accretions and Additions	Reductions	Balance, June 30
Compensated absences	$ 109,340	$ 64,632	$ 59,977	$ 113,995
Revenue bond debt	705,016	253,937	19,285	939,668
Net pension obligations	430	423	275	578
Capital leases	4,412	4,817	1,718	7,511
Totals	$ 819,198	$ 323,809	$ 81,255	$ 1,061,752

Proprietary Funds:

Indiana State Office Building Commission - The Indiana State Office Building Commission (SOBC) was created as a public body corporate and politic by the 1953 Acts of the Indiana General Assembly. The SOBC is authorized to construct and equip such facilities as the General Assembly may authorize through the issuance of revenue bonds. The SOBC has issued debt obligations to provide funds for financing the implementation of the Indiana Government Center Master Plan and to finance acquisition costs (including design and construction costs) of the Indiana Museum, Miami Correctional Facility, Pendleton Juvenile Correctional Facility, New Castle Correctional Facility and the Replacement Evansville State Hospital. The facilities are rented to the Indiana Department of Administration (DOA) under use and occupancy agreements.

Bonds issued by the SOBC are obligations only of the SOBC and are payable solely from and secured exclusively by the pledge of the income of the applicable facility financed. The SOBC has no taxing authority and rental payments by the DOA are subject to and dependent upon appropriations made for such purposes by the General Assembly.

On September 8, 1993, the Commission issued $178.4 million in advance refunding Capital Complex Revenue Bonds (Series 1993 A, B and C Bonds). This series of bonds was issued to fully refund in advance of their stated maturity dates certain Capital Complex Revenue Bonds from the 1986, 1987, 1988 and 1990 A, B and C Series. On January 1, 1998, Facilities Revenue Refinance Bonds Series 1998A in the amount of $93 million with interest rates from 3.9% to 5.125% were issued to fully refund in advance of their stated maturity dates the 1991 Series Bonds. The net proceeds were used to purchase U.S Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service for the refunded bonds. At June 30, 2001, the Commission had a total of $257.9 million defeased bonds outstanding.

On June 1, 2000 the Commission issued the Series 2000B Bonds to refund on a current basis a portion of the Commissions' outstanding Series 1990D Bonds. The net proceeds of $42.7 million were used to purchase U.S. Government securities. These securities, plus $6.6 million of restricted assets released, were deposited in an irrevocable trust with an escrow agent to provide for the July 1, 2000 refunding on a current basis a portion of the Series 1990D Bonds. The reacquisition price of these bonds exceeded their net carrying value resulting in an accounting loss of $1.2 million. Pursuant to GASB Statement 23, the Commission elected to capitalize the loss as a reduction of the related revenue bonds payable. The amount capitalized is amortized, using the effective interest method, over the shorter of the remaining life of the refunded or new bonds, which is equal to thirteen years. The Series 2000B Bonds were issued with interest rates that fluctuate based on the market rate. Accordingly, while the Commission believes an economic gain and lower cash flow requirements will result from the refunding, the amount of such benefits, if any, is not presently determinable because the interest rates fluctuate based on the market rate.

On April 10, 2001, the Commission amended and restated the Hoosier Notes credit agreement dated February 18, 1998 which provides up to $250 million of tax exempt commercial paper to provide interim financing for the acquisition and construction of various facilities. Outstanding borrowings under this facility at June 30, 2001 were $221.9 million and bears interest at the London Interbank Offered Rate (LIBOR) plus .25% or 70% of the bank's prime lending rate. The interest rates in effect at June 30, 2001 were between 2.25% and 4.35%. Accrued interest at June 30, 2001 was $1.3 million. The credit facility expires February 1, 2004. Upon completion of construction on the various facilities, the Commission plans to issue bonds to fund the outstanding balance on the Hoosier Notes. Subsequent to June 30, 2001, the Commission has made additional borrowings of $21 million persuant to this agreement.

Recreational Development Commission - The Recreational Development Commission was created in 1973 pursuant to I.C. 14-14-1, for the purpose of providing funds for projects involving Department of Natural Resources' properties. The Commission consists of five members. The Treasurer of State and the Director of the Department of Natural Resources (DNR) are members by virtue of their offices and the other three members are appointed by the Governor.

In 1987 and 1990 revenue bonds were issued to provide funds to renovate and equip Abe Martin Lodge and Turkey Run Inn and to construct cabins at Harmonie and Whitewater State Parks. Lease agreements with the Indiana Department of Natural Resources State Park Inns are used to repay the bond issues. The buildings and land will then be deeded back to the State of Indiana.

In 1994, the Commission executed three Escrow Deposit Agreements with bank trustees for the purpose of refunding revenue debentures issued in 1987 and 1990. A portion of the proceeds from the 1994A Revenue Bonds was used to fund the redemption.

On January 1, 1997, the Commission issued $6.6 million of Series 1997 Revenue Bonds with interest rates from 4% to 5.35% to finance a golf course at Ft. Harrison State Park.

Indiana Transportation Finance Authority – East-West Toll Roads – The Indiana Transportation Finance Authority (ITFA) is the successor to the Indiana Toll Finance Authority created in 1983 pursuant to IC 8-9.5. ITFA is a body both corporate and politic and, although separate from the State, the exercise by ITFA of its powers constitutes an essential government function. ITFA's duties consist of the construction, reconstruction, improvement, maintenance, repair and operation of all toll roads and bridges in the state. To exercise its duties, ITFA may issue bonds under statute.

Bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of the revenues from the leases to the Indiana Department of Transportation of the projects financed out of the bond proceeds and the proceeds of such bonds and the investment earnings thereon. ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State within the meaning or application of the any constitutional provision or limitation.

During September 1985, ITFA issued $256.9 million of Indiana Toll Finance Authority Toll Road Revenue Refunding Bonds, Series 1985 for the refunding of the outstanding portion of the Indiana Toll Commission East-West Toll Road Revenue Bonds, 1980 Series. At June 30, 2001, the principal amount of the Series 1980 bonds, which have been defeased in substance, was $108.0 million.

Revenue bonds outstanding at June 30, 2001 (less unamortized discount of $16.7 million) are as follows.

	Interest rates	Amount
General Long-Term Debt Account Group		
ITFA Highway Revenue Bonds	4.25% - 6.25%	$ 712,553
ITFA Airport Facilities Bonds	4.50% - 6.50%	217,415
ITFA Aviation Technology Center Bonds	5.65% - 6.50%	9,700
		$ 939,668
Proprietary funds:		
Indiana State Office Building Commission	2.75% - 10.00%	$ 596,817
Recreational Development Commission	3.60% - 6.13%	23,808
ITFA Toll Roads	3.90% - 9.50%	234,235
		$ 854,860

State Lottery Commission Accrued Prize Liability - Accrued prize liability includes an estimate of unclaimed scratch-off and on-line game winners and future television game show prizes awarded on shows committed to as of June 30, 2001, as well as installment amounts payable to past scratch-off, on-line and game show winners. Installment prizes payable are recorded at a discount based on interest rates that range from approximately 5% to 8% and reflect interest earned by investments held to fund related liabilities. At June 30, 2001, the accrued prize liability was $79.5 million including $35.2 million in current prize liability and $44.3 million in long-term prize liability.

Revenue bond debt service and accrued prize liability requirements to maturity, including $1,179.6 million of interest, are as follows:

Fiscal year ending June 30,	General Long-Term Debt Account Group	Proprietary funds	Total
2002	$ 73,546	$ 84,737	$ 158,283
2003	76,360	95,245	171,605
2004	76,624	94,700	171,324
2005	76,856	93,624	170,480
2006	78,095	92,865	170,960
Thereafter	1,207,408	1,019,466	2,226,874
Total	$ 1,588,889	$ 1,480,637	$ 3,069,526

Long-Term Debt of the Significant Discretely Presented Component Units is as follows:

Indiana Development Finance Authority - The Indiana Development Finance Authority (IDFA) was established by the General Assembly, in 1990, as a body corporate and politic to independently exercise essential public functions. IDFA's primary purpose is to provide job-creating industrial development projects with access to capital markets where adequate financing is not otherwise available.

IDFA is a party to a reimbursement agreement with Qualitech Steel Corporations (Qualitech) and a bank relating to the $33.1 million Indiana Development Authority Taxable Variable Rate Demand Economic Development Revenue Bonds Series 1996. Qualitech filed a petition for relief under Chapter 11 of the Bankruptcy Code. As a result, IDFA could be obligated to pay the outstanding balance of the bond issue, which would result in recognition of losses in future years. The amount of this contingency is the outstanding principal of the Bonds totaling $27.5. Debt service reserve funds aggregating $3.6 million are currently held in trust and may be available to reduce the contingent obligation.

For more information, see Note IV E. Contingencies and Commitments – Loss from Reimbursement Agreement.

Indiana Housing Finance Authority - In 1978, the Indiana Housing Finance Authority (the Authority) was granted the power to issue bonds for the purpose of financing residential housing for persons and families of low and moderate incomes. These bonds are special obligations of the authority and are payable solely from the revenues and assets pledged. Various series of bonds have been issued with an original amount of $1,481 million with interest rates ranging from 3.90% to 9.375%. The total outstanding debt associated with these bond issues as of December 31, 2000 was $900 million.

During 1996, the Authority used one new bank loan to redeem all of the bonds from the General Fund Collateralized Mortgage Obligation Series A. The principal amount of this loan totaled $6.2 million as of December 31, 2000.

During 1999, GNMA Mortgage Program Fund redeemed the remaining bonds on the 1989 Series A, through an optional redemption, at a premium of 103%, resulting in a premium paid of $428,100. This transaction resulted in deferred debt issuance cost of $162,469.

During 2000 the Single Family Mortgage Program Fund issued 2000 Bond Series with a face value of $208.6 million and interest rates varying from 4.60% to 7.85%. The Single Family Mortgage Program Fund provides for the purchase of mortgage loans made to eligible borrowers for owner occupied housing.

The Indiana Housing Finance Authority borrowed $6.1 million during 2000 against its line of credit. The proceeds from this borrowing were at an interest rate of 5.5022%

During 2000 the GNMA Mortgage Program Fund redeemed the remaining bonds on the 1990 Series B, 2990 Series C, 1990 Series D, and 1990 Series F, through optional redemptions at a premium of 103% resulting in a premium paid of $1,003,900. These transactions resulted in extraordinary deferred debt issuance costs of $180,954.

Indiana Bond Bank - The Bond Bank is an instrumentality of the State of Indiana but is not a state agency and has no taxing power. It has separate corporate and sovereign capacity and is composed of the Treasurer of State (who serves as Chairman of the Board, ex officio), the Director of the Department of Financial Institutions (who serves as director, ex-officio), and five directors appointed by the Governor. The Bond Bank is authorized to buy and sell securities for the purpose of providing funds to Indiana qualified entities. To achieve its purpose, the Bond Bank has issued various bonds and notes payable. The bonds and notes payable were issued under indentures of trust. Each indenture requires the maintenance of debt service reserve accounts. Total outstanding debt as of June 30, 2001 was $1,378 million with interest rates ranging from 2.8% to 7.125%. Assets held in debt service reserve accounts are included in cash, cash equivalents, and investments and amounted to $26.8 million.

In January 2000, the Bond Bank issued its Special Program Series 2000A Refunding Bonds in the amount of $32,860,000. Proceeds from this issue and certain related investments were used to defease the Special Program Bonds Series 1985B, 1986B, 1986C, 1986E, 1987A, 1989C, 1990A, 1990B, and Special Loan Program Bonds Series 1988A, 1988B, 1988C, and 1989A in entirety. The difference between the amount deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased debt and the net carrying amount of the defeased debt resulted in a deferred cost on defeasance of $1.2 million, which is being amortized over the life of the Special Program Series 2000A Refunding Bonds. However, the issuance of the Special Program Series 2000A Refunding Bonds will reduce the Bond Bank's aggregate debt service payments by $17.7 million over the 20-year period extending through February, 2020, resulting in an economic gain (the difference between the present values of the old and new debt service payments) of approximately $4.9 million.

Special Program Bonds Series 1985A, 1989A, 1991B, 1992A, and 1992B are considered to have been defeased and have been removed from the financial statements and in total have remaining outstanding principal balances of approximately $67 million at June 30, 2001.

In August 2000, the Bond Bank issued Advance Funding Program Notes Series 2000B with a face amount of $2.4 million and an interest rate of 4.5%.

In December 2000 the Bond Bank issued State Revolving Bonds Series 2000B with a face amount of $100 million at interest rates varying from 5.25% to 5.35%. Also in December 2000 the Bond Bank issued State Revolving Bonds Series 2000B Taxable with a face amount of $5.6 million and an interest rate of 6.0%.

In January 2001, the Bond Bank issued Advanced Funding Interim Notes with a face amount of $87 million and an interest rate of 3.85%. This money goes out to all participants who want to receive their funds ahead of the Advance Funding Program Notes which are issued in February. These Advanced Funding Interim Notes are repaid when the Advance Funding Program Notes are issued.

In January 2001, the Bond Bank issued its Special Program Series 2001A Refunding Bonds in the amount of $20,840,000 at interest rates varying from 5.0% to 5.5%. Proceeds from this issue and certain related investments were used to defease the Special Program Bonds Series 1992A and 1992B in entirety and retire the Special Program Bonds Series 1991C and 1991F. The difference between the amount deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased debt and the net carrying value of the defeased debt resulted in a deferred cost on the defeased debt of $978,819, which is being amortized over the life of the Special Program Series 2001A Refunding Bonds. However, the issuance of the Special Program Series 2001A Refunding bonds will reduce the Bond Bank's aggregate debt service payments by $31.5 million over the 21 year period extending through February 2022, resulting in an economic gain of approximately $15.7 million.

In January 2001 the Bond Bank issued Special Program Bonds Series 2001B with a face amount of $9.5 million at interest rates varying from 3.35% to 5.5%.

In February 2001, the Bond Bank issued Advance Funding Program Notes Series 2001A with a face amount of $370.8 million and an interest rate of 4.0%.

Colleges and Universities -- Both Indiana University and Purdue University are authorized by acts of the Indiana General Assembly to issue bonds for the purposes of financing construction of student union buildings, halls of music and housing, athletic, parking, hospital, academic facilities and utility systems.

Indiana University

The outstanding long-term bonded indebtedness at June 30, 2001 was $554.1 million with interest rates ranging from 4.0% to 6.6%.

On August 23, 2000, the university issued Indiana University Tax-Exempt Commercial Paper Notes Series 2000 (TECP 2000) in the amount of $25.3 million. The issue was able to provide interim financing for portions of the Science and Campus Services Building on the Kokomo campus and the Student Activities Center on the South Bend campus. The interest rate was 4.25% at issuance, and can be reset for intervals not to exceed 270 days.

On December 14, 2000, the university issued Indiana University Variable Rate Facility Revenue Bonds Series 2000 in the amount of $16.8 million. The purpose of the issue was to refinance a bond anticipation note issued in 1999, which financed the new parking facility located just south of the Kelley Center and Library on the Kokomo campus; finance a parking facility connected to the Graduate School of Business on the Bloomington campus; and finance a parking facility on the northwest corner of Michigan and Blackford Streets on the Indianapolis campus. The variable interest rate was set at an initial weekly rate of 4.25%

On June 28, 2001, the university issued Indiana University Student Fee Bonds, Series N, in the amount of $103.9 million. The purpose of the issue was to provide for a partial current refunding of Student Fee Bonds Series H, a partial advance refunding of the Student Fee Bonds Series I and a full current refunding of TECP 2000 (see above). The issue also included new money, which completed the financing for the Science and Campus Services Building on the Kokomo campus and the Student Activities Center on the South Bend campus. The true interest cost for the entire bond issue was 4.46%. The advance and current refunding resulted in the recognition of an accounting loss of $2.360 million for the year ending June 30, 2001. The refunding portion of the transaction achieved debt service savings of $2.515 million with a net present value savings of $2.367 million.

In prior years, Indiana University has defeased bond issues either with cash or by issuing new debt. U.S. Treasury obligations have been purchased in amounts sufficient to pay principal and interest payments when due, through maturity, and have been deposited in irrevocable trust with the trustee. Neither the defeased bonds nor the related trusts are reflected on the University's books. The total amount of defeased debt outstanding at June 30, 2001 was $31.6 million.

Purdue University

The outstanding long-term bonded indebtedness at June 30, 2001 was $315.8 million at 2.6% to 6.5% for Purdue University.

On July 1, 2000, series Q bonds were issued in the amount of $50.0 million. This series includes funding for three projects: renovation of the Purdue Memorial Union; Boiler Life Extension Phase II; and construction of the Visual and Performing Arts Building. As of June 30, 2001, the balance outstanding on these bonds was $50.0 million. The interest rates were 5.25% to 6.0%.

In prior years, Purdue University has defeased bond issues either with cash or by issuing new debt. U.S. Treasury obligations have been purchased in amounts sufficient to pay principal and interest payments when due, through maturity, and have been deposited in irrevocable trust with the trustee. Neither the defeased bonds nor the related trusts are reflected on the University's books. The total amount of defeased debt outstanding at June 30, 2001 was $105.4 million.

G. Equity Reserves

Reserved fund balances/retained earnings are as follows:

Fund balance / retained earnings reserved for:	Encumbrances and prepaid items	Tuition support	Employees' pension benefits	Advances and inter-governmental loans	Debt service	Special purposes, future losses and other	Endowments and similar funds	Total reserves
Governmental funds:								
General fund	$ 75,760	$ 265,000	$ -	$ 9,874	$ -	$ 3,819	$ -	**$ 354,453**
Special revenue funds	966,273	-	-	554,769	-	98,818	-	**1,619,860**
Debt service funds	-	-	-	-	12,824	-	-	**12,824**
Capital projects funds	13,199	-	-	5,985	-	225	-	**19,409**
Proprietary funds:								
Enterprise funds	-	-	-	-	-	189,565	-	**189,565**
Internal service funds	-	-	-	300	-	25,680	-	**25,980**
Trust and agency funds:								
Expendable trust funds	-	-	-	-	-	1,024	-	**1,024**
Nonexpendable trust funds	-	-	-	326,578	-	-	-	**326,578**
Pension trust funds	-	-	306,895	-	-	-	-	**306,895**
Discretely presented component units:								
Governmental	5,948	-	-	-	-	-	-	**5,948**
Pension trust funds	-	-	15,874,528	-	-	-	-	**15,874,528**
Colleges and universities	-	-	-	-	-	-	422,750	**422,750**
Total	**$ 1,061,180**	**$ 265,000**	**$ 16,181,423**	**$ 897,506**	**$ 12,824**	**$ 319,131**	**$ 422,750**	**$ 19,159,814**

H. Contributed Capital

The changes in contributed capital for proprietary funds were as follows:

	Enterprise Funds	---------------------------Internal Service Funds---------------------------			
	Inns and concessions	Institutional industries	Administrative services revolving	State Office Building Commission	Total
Beginning balance, contributed capital, as restated	$ 9,308	$ 8,878	$ 1,490	$ 9,981	**$ 29,657**
Contributing sources:					
Captial grants	45	-	-	-	**45**
Ending balance, **Contributed Capital**	**$ 9,353**	**$ 8,878**	**$ 1,490**	**$ 9,981**	**$ 29,702**

I. Prior Period Adjustments and Reclassifications

For the fiscal year ended June 30, 2001, certain changes have been made to the financial statements to more appropriately reflect financial activity of the State of Indiana

Prior Period Adjustments –Of the $597.3 million prior period adjustment for Special Revenue Funds, $599.0 million was for the Property Tax Replacement Fund. In connection with the implementation of GASB Statement No. 33 during FY 2001, amounts previously reported for FY 2000 have been restated to reflect changes in the recognition of intergovernmental payables. As presented on the Balance Sheet for FY 2000, Property Tax Replacement Fund Intergovernmental Payables increased by $599.0 million while Unreserved Fund Balance Designated for Allotments decreased by the same amount.

Of the $12.2 million prior period adjustment for the Internal Service Funds, $16.2 million was for the State Police Benefit Fund. A correction of the method of estimating incurred claims caused this prior period adjustment.

The State collects and distributes taxes for local units of government through the General Fund. Effective this reporting period it has been decided that these collections are more properly reported as an agency fund. This resulted in a restatement of beginning assets in the amount of $258.5 million. These assets are Securities Lending Collateral and were carried as an asset in the General Fund in FY 2000.

Of the $8.4 million prior period adjustment for Colleges and Universities, $5.8 million was for Ivy Tech State College. In connection with the implementation of GASB Statement No. 33 during FY 2001, amounts previously reported for FY 2000 have been restated to reflect changes in the recognition of deferred revenue. As presented on the Balance Sheet for FY 2000, Restricted Funds Deferred Revenue increased by $5.8 million while the Restricted Fund Balance decreased by the same amount.

Reclassifications – The State collects and distributes taxes for local units of government through the General Fund. Effective this reporting period it has been decided that these collections are more properly reported as an agency fund and are reclassified accordingly. This reclassification results in a reduction to the July 1, 2000 General Fund fund balance of $331 million and an corresponding increase to Agency fund assets.

The State collects and distributes child support payments under Title IV-D through a Special Revenue Fund. Effective this reporting period it has been decided that these collections are more properly reported as an agency fund and are reclassified accordingly This reclassification results in a reduction to the July 1, 2000 Special Revenue fund balance of $21.7 million and an corresponding increase to Agency fund assets.

Effective July 1, 2000, the Public Employees Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF) became independent bodies corporate and politic. The funds are not departments or agencies for the State but are independent instrumentalities exercising essential government functions. Because of their change in legal status these funds are reclassified as discretely presented component units. This results in decrease of $15,876 million to the primary government's pension trust funds and a corresponding increase to discretely presented pension trust funds.

The following schedule presents a summary of restated beginning balances by fund type:

	June 30, 2000, As Reported	Prior Period Adjustments	Reclassifications	Balance July 1, As Restated
Primary government including blended component units:				
General Fund	$ 3,219,285	$ -	$ (331,002)	$ 2,888,283
Special revenue funds	2,153,788	(597,277)	(21,730)	1,534,781
Debt service funds	12,040	-	-	12,040
Capital projects funds	505,059	(4,717)	-	500,342
Enterprise funds	179,231	2,330	-	181,561
Internal service funds	53,620	(12,235)	-	41,385
Trust and agency funds:			-	
Expendable trust	2,122,464	-	-	2,122,464
Nonexpendable trust	451,091	-	-	451,091
Pension trust	16,186,104	-	(15,876,495)	309,609
Agency (asset)	379,993	258,535	352,732	991,260
			-	
Discretely presented component units:			-	
Governmental	30,771	-	-	30,771
Proprietary	437,008	-	-	437,008
Pension trust	-	62	15,876,495	15,876,557
Colleges & universities	4,048,539	(8,361)	-	4,040,178
	$ 29,778,993	$ (361,663)	$ -	$ 29,417,330

IV. OTHER INFORMATION

A. Risk Management

The State of Indiana is exposed to various risks of loss. This includes damage to property owned by the agencies, personal injury or property damage liabilities incurred by a State officer, agent or employee, errors, omissions and theft by employees, certain employee health benefits, employee death benefits, and unemployment and worker's compensation costs for State employees.

The State records an expenditure for any loss as the liability is incurred or replacement items are purchased. The State does purchase immaterial amounts of commercial insurance. Settlements related to commercial insurance have not exceeded coverage in the past three fiscal years.

The State does have risk financing activity for the state employees' disability, state employees' death benefits, certain state employees' health benefits, and certain health, disability and death benefits for State Police officers. These are reported in five individual Internal Service Funds. The state employees' disability program is financed partially by state employees through payroll withholdings and by the funds from which employees are paid. The employees' death benefits are financed through a charge to each fund with payroll expenditures. The charge is a percentage of gross pay. The employees' health benefits and the State Police traditional health plan are funded by the employees who have selected certain health care benefit packages and the funds from which those employees are paid. (An insurance carrier does provide claims administration services for the health insurance programs.) The State Police benefit fund is financed by statutory appropriations and certain witness fees.

Located below is the table of claim liabilities. The liabilities are not maintained in the accounting records of the State. The claim liabilities for the health insurance programs and the State Disability fund were estimated based on the historical experience rate of claims paid that were for service dates incurred during a prior fiscal year. The liability for employee death benefit is based on claims submitted and paid during July for liabilities incurred prior to June 30. The liability of the State Police benefit fund was based on an estimate of the actuarial liability of death and disability payments. The surplus retained earnings in these funds is reserved for future catastrophic losses.

The unpaid claims of the State Disability Fund of \$11.1 million reported at June 30, 2000, included a reserve of \$4.0 million for workers' compensation claims. Since workers' compensation claims are paid by the agency, not the State Disability Fund, the unpaid claims as of July 1, 2000, was restated to \$7.1 million.

	State Police Health Insurance Fund	State Employees' Health Insurance Fund	State Disability Fund	State Employees' Death Benefits Fund	State Police Death Benefits	Total
2001						
Unpaid Claims, July 1 As Restated	$ 2,013	$ 8,010	$ 7,142	$ -	$ 1,275	**$ 18,440**
Incurred Claims and Changes in Estimate	12,946	56,597	21,062	100	17,780	**108,485**
Claims Paid	(13,359)	(55,607)	(21,085)	(50)	(1,418)	**(91,519)**
Unpaid Claims, June 30	**$ 1,600**	**$ 9,000**	**$ 7,119**	**$ 50**	**$ 17,637**	**$ 35,406**
2000						
Unpaid Claims, July 1	$ 2,302	$ 6,315	$ 9,579	$ -	$ 1,175	**$ 19,371**
Incurred Claims and Changes in Estimate	13,208	57,275	20,151	-	1,362	**91,996**
Claims Paid	(13,497)	(55,580)	(18,612)	-	(1,262)	**(88,951)**
Unpaid Claims, June 30	**$ 2,013**	**$ 8,010**	**$ 11,118**	**$ -**	**$ 1,275**	**$ 22,416**

The trustees of Indiana University and Purdue University (discretely presented component units) have chosen to assume a portion of the risk of loss for their respective institutions. Each university is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; health and other medical benefits provided to employees and their dependents. The universities individually handle these risks of loss through combinations of risk retention and commercial insurance. The amount of settlements did not exceed insurance coverage in the past three fiscal years. The universities' estimated liability for unpaid claims at June 30, 2001 was $32.0 million.

B. Investment in Joint Venture

The Indiana Transportation Finance Authority (ITFA) is a participant in a governmental joint venture with United Airlines. This participation is an investment, pursuant to an Agreement Among Tenants of Leasehold Estate in Airport Development Project (joint venture), dated as of December 1, 1991 and amended as of May 15, 1995 to obtain an individual ownership interest in the site and facilities to be acquired and constructed by United Airlines, as outlined in the Site and Facilities Lease Agreement, dated as of December 1, 1991 and amended as of May 15, 1995.

The ITFA deposited $159 million of the bond proceeds of the Series 1992A bonds into the project account of the construction fund to provide for a portion of the costs of constructing and equipping Phase I of the United Airlines Indianapolis Maintenance Center. Additional proceeds of $32.8 million, which consisted of capitalized and accrued interest, were deposited in the interest account of the construction fund.

The construction fund transactions related to the investment in Joint Venture are not reported as part of the financial reporting relating to ITFA's Airport Facilities Lease Revenue bonds. The construction fund is used to account for the acquisition and construction of a portion of the United Airlines Facility.

Financial Statements can be obtained from the Indiana Transportation Finance Authority as noted in Note 1A.

C. Segment Information -- Enterprise Funds

The State of Indiana has five enterprise funds, which are intended to be self-supporting through user fees charged for services to the public. The Inns and Concessions provide lodging and dining throughout the year for state park tourists. The Toll Bridges collect fees for the repayment of construction costs and to provide maintenance of the bridges. The Toll Roads collect fees for repayment of road construction and maintenance of roads. The State Lottery Commission provides money for various pension and educational funds, as well as for local building projects. The Residual Malpractice Insurance Authority provides medical malpractice insurance for those who cannot get coverage.

Included below is segment information for enterprise funds for the fiscal year ended June 30, 2001.

	Inns and concessions	Toll bridges	Toll roads	State Lottery Commission	Malpractice Insurance Authority	Total
Operating revenue	$ 17,453	$ 807	$ 88,517	$ 548,288	$ 1,728	$ 656,793
Depreciation and amortization	510	105	11,054	1,095	-	12,764
Operating income (loss)	(778)	75	43,106	147,855	(824)	189,434
Operating transfers in (out)	-	-	-	(155,636)	-	(155,636)
Net income (loss)	(565)	82	34,956	(51)	304	34,726
Fixed asset additions	130	-	27,260	622	-	28,012
Net working capital	1,512	3,822	194,844	36,154	3,560	239,892
Total assets	13,855	4,373	450,148	128,176	15,814	612,366
Bonds/notes/loans payable	349	-	234,235	-	-	234,584
Total equity	9,249	4,357	203,474	5,000	3,560	225,640

D. Subsequent Events

During FY 2001, the State experienced actual revenue shortfalls and has reduced its revenue forecast for FY 2002 and FY 2003. Under the budget passed by the 2000 General Assembly, the State is expecting a deficit in the General Fund and the Property Tax Replacement Fund of $919.6 million for FY ending June 30, 2003. The Governor has indicated he will delay distribution of the higher education allotment and tuition support, which would reduce the deficit to $535.9 million. In addition, he will seek a delay in the property tax replacement credit, which would further reduce the deficit to $381.8 million on a cash basis. The Governor is working with the General Assembly on a plan to reduce the remaining deficit and balance the budget through a combination of spending reductions, tax increases, and existing funding sources that are not normally available to the General Fund.

On August 8, 2001, the Indiana State Office Building Commission issued Facilities Revenue Bonds, Series

2001A, aggregating $66.6 million related to the Miami Correctional Facility-Phase II.

Subsequent to June 30, 2001, the Bond Bank has closed the following new bond issues: Special Program Bonds, Series 2001A in the amount of $7.1 million, Advance Funding Program Notes, Series 2001B in the amount of $5.0 million, and Common School Fund, Series 2001A in the amount of $55.5 million.

E. Contingencies and Commitments

Litigation

The State does not establish reserves for judgements or other legal or equitable claims. Judgements and other such claims must be paid from unappropriated fund balances. With respect to tort claims only, the State's liability is limited to $300,000 for injury or death of one person in any one occurrence and $5 million for injury or death of all persons in that occurrence.

The Indiana Attorney General's office estimates a liability of $6-8 million for open tort lawsuits. During fiscal year ending June 30, 2001, the State paid $7.2 million for tort settlements and judgements, and claims.

The Indiana Attorney General's office is currently handling the following cases which could result in significant liabilities to the State.

On July 26, 1993, a lawsuit was filed in Marion Circuit Court alleging that the State has failed to pay certain similarly classified State employees at equal rates of pay. The plaintiffs seek class action status. The relief sought includes damages in an unspecified amount, as well as injunctive relief. The State has filed a motion to dismiss for failure to exhaust administrative remedies. The motion was denied by the trial court, but the denial is being appealed. During fiscal year 1995, a similar action was filed in the Marion Superior Court. This matter is still pending, and if the State were ultimately unsuccessful, the loss would be approximately $4 million.

In a lawsuit filed against the State on January 19, 1993, the Marion Superior Court invalidated the portion of the Medicaid disability standard that previously permitted the State to ignore applicants' inability to pay for medical treatment that would lead to improvement in their medical condition. After an appeal and remand, the trial court again invalidated the standard in December 1999, and the Court of Appeals recently affirmed the trial court's decision. The State sought transfer to the Supreme Court. In July 2001, the Supreme Court denied transfer, thus affirming the adverse trial court decision. As of December 2001, the State and the plaintiffs have agreed on Medicaid's manner of compliance with the judgment, and the agreement is awaiting court approval. The fiscal impact is estimated to be $25 million per year.

In September 2000, various Lake County residents and Lake County officials filed a lawsuit in Tax Court claiming that residents of the county pay a disproportionate share of Hospital Care for the indigent property tax and that the tax, therefore violates various constitutional provisions. A response to the petition was filed in November 2000. Plaintiffs are claiming that upwards of $20 million should be refunded to taxpayers. The parties filed cross-motions for summary judgment and oral arguments were made on December 4, 2001. The State is currently awaiting a decision.

A gaming corporation operating one of the riverboats has challenged the interpretation the Department of Revenue has placed on the Riverboat Gaming Tax, claiming that the tax is not an add-back for adjusted gross income tax and supplemental net income tax purposes. The case is pending before the Tax Court on cross motions for summary judgment. The potential financial impact of this case is approximately $7.5 million, with additional impact because of the precedent it would have on other gaming operations.

The State intends to vigorously defend each of the foregoing suits or other claims.

In addition, the State Lottery Commission (the Commission) is the defendant in a class action suit. During 1997, a class action suit was filed in Marion County Court on behalf of all persons denied prizes on tickets submitted beyond the statutorily required, final sixty-day claim period. In October 1997, the Court granted the Commission's motion to dismiss the complaint. However, the Indiana Court of Appeals reversed the trial court decision and found that the plaintiff was entitled to trial on the merits of his claim. The case is now pending before the Indiana Supreme Court.

Management and its legal counsel intend to vigorously defend its position but are unable to predict at this time the final outcome of the appeals process. If the Supreme Court upholds the plaintiff's appeal and allows a trial on the merits of the case, the Commission will vigorously defend its position and believes it will prevail. However, the Commission cannot predict the final resolution of this matter or whether its resolution could materially affect the Commission's results of operations, cash flows or financial position.

Loss from reimbursement agreement

The Indiana Development Finance Authority (IDFA) is a party to a Reimbursement Agreement with Qualitech Steel Corporation (Qualitech) and a bank relating to the $33.1 million Indiana Development Authority Taxable Variable Rate Demand Economic

Development Revenue Bonds, Series 1996 (the Bonds). The proceeds of the Bonds were used by Qualitech to help construct Qualitech's special bar quality steel mini-mill facility in Pittsboro, Indiana. The company filed for Chapter 11 bankruptcy in 1999, and the senior lenders purchased the assets of Qualitech in a credit bid. The senior lenders operated Qualitech SBQ, LLC until it ceased operations in January 2001. ITFA and the State are working with local officials to encourage potential purchasers.

To induce the bank to issue a letter of credit used as a credit enhancement in the marketing of the Bonds, ITFA agreed to certain provisions in the original Reimbursement Agreement. These provisions require ITFA, in the event of certain defaults by Qualitech, to either I) pay bond and related expenses from certain monies legally available to ITFA, or II) seek an appropriation from the Indiana General Assembly to repay the bank the amounts due under the Reimbursement Agreement. The Amended Reimbursement Agreement requires that ITFA maintain the debt service reserve fund at the "fully-funded" level, and it stipulates no declaration of default so long as bond and related payments are made.

In fiscal year ending June 30, 2001, ITFA made bond and related payments of approximately $3.4 million for Qualitech. In the 2001-2003 biennial budget, the Indiana General Assembly appropriated $8.4 million for Qualitech bond and related payments, negating the need to access any ITFA guarantee funds in either FY 2002 or FY 2003.

ITFA could be obligated to pay the outstanding balance of the bond issue, which would result in recognition of losses in future years. The amount of this contingency is the outstanding principal of the Bonds totaling $27.5 million. Debt service reserve funds aggregating over $3.6 million are currently held in trust and may be available to reduce the contingent obligation.

Federal Grants.
The State has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, it is believed that any required reimbursements will not be material.

Construction Commitments.
As of June 30, 2001, the Indiana Transportation Finance Authority Highway Bonds, which are included in the financial reporting entity of the State of Indiana as a special revenue fund, had $124.4 million committed for unfinished highway construction projects.

F. Other Revenue

Other revenue represents revenue received which cannot accurately be included with any of the other revenue sources. In most cases, the amount of "other revenue" received by a fund is insignificant in comparison with total revenues received.

G. Economic Stabilization Fund
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In 1982 the Indiana General Assembly adopted Indiana Code 4-10-18, which established the Counter-Cyclical Revenue and Economic Stabilization Fund ("Rainy Day Fund"). This fund was established to assist in stabilizing revenue during periods of economic recession and is accounted for within the State general fund.

Each year the State Budget Director determines calendar year Adjusted Personal Income (API) for the State and its growth rate over the previous year, using a formula determined by the legislature. In general, monies are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2%; monies are removed automatically from the Rainy Day Fund if API declines by more than 2%. All earnings from the investments of the Rainy Day Fund remain in the Rainy Day Fund. If the balance in the fund at the end of the fiscal year exceeds 7% of total general fund revenues for the same period, the excess is transferred from the Rainy Day Fund into the Property Tax Replacement Fund.

Loans can be made from the Rainy Day Fund to local units of government for specific purposes. The Rainy Day Fund cash and investment balance at the end of fiscal year 2001 was $525.1 million. Total outstanding loans were $.9 million, resulting in total assets of $526.0 million.

H. Deferred Compensation

The State offers its employees a deferred compensation plan (the plan) created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees and employees of certain quasi-agencies and political subdivisions within the State, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held for the exclusive benefit of participants of the plan and their beneficiaries as required by section 457(g) of the Internal Revenue Code. In addition, the State has an Indiana Incentive Match Plan which provides $15 per pay period for each employee who contributes to the 457 Plan.

The State has established a deferred compensation committee that holds the fiduciary responsibility for the plan. The committee holds the deferred amounts in an expendable trust.

I. Discretely Presented Component Units – Condensed Financial Statements

The Indiana Development Finance Authority (IDFA) is the only discretely presented component unit of a governmental fund type and is considered significant. On the following pages are the condensed financial statements of the proprietary fund types, colleges and universities, and pension trust funds giving separate detail of the balances and activity of those considered significant to the State reporting entity.

Condensed Balance Sheet
Major and Aggregate Non-major Discretely Presented Component Units
Proprietary fund types and Colleges and Universities
June 30, 2001

	Indiana University	Purdue University	Indiana Bond Bank	Indiana Housing Finance Authority	Non-major component units	Total
Assets						
Current assets	$ 817,111	$ 1,622,910	$ 109,127	$ 242,923	$ 1,196,992	**$ 3,989,063**
Non-current assets	-	-	1,310,423	801,152	166,824	**2,278,399**
Property, plant, and equipment net of accumulated depreciation	1,494,397	861,640	-	419	894,468	**3,250,924**
Total assets	**$ 2,311,508**	**$ 2,484,550**	**$ 1,419,550**	**$ 1,044,494**	**$ 2,258,284**	**$ 9,518,386**
Liabilities						
Current liabilities	$ 230,834	$ 326,701	$ 85,940	$ 2,251	$ 372,790	**$ 1,018,516**
Revenue bonds / notes payable	561,571	334,384	1,322,013	911,856	569,663	**3,699,487**
Total liabilities	792,405	661,085	1,407,953	914,107	942,453	**4,718,003**
Equity						
Net investment in plant	956,410	531,682	-	-	603,445	**2,091,537**
Endowments and similar funds	138,229	255,543	-	-	28,978	**422,750**
Unreserved retained earnings	-	-	11,597	130,387	360,512	**502,496**
Allocated fund balance	103,296	671,372	-	-	220,618	**995,286**
Unallocated fund balance	321,168	364,868	-	-	102,278	**788,314**
Total equity	1,519,103	1,823,465	11,597	130,387	1,315,831	**4,800,383**
Total liabilities and equity	**$ 2,311,508**	**$ 2,484,550**	**$ 1,419,550**	**$ 1,044,494**	**$ 2,258,284**	**$ 9,518,386**

Condensed Statement of Changes in Fund Balance
Major and Aggregate Non-major Discretely Presented Component Units
Colleges and Universities
For the Fiscal Year Ended June 30, 2001

	Indiana University	Purdue University	Non-major universities	Total
Revenues and other additions:				
Current fund revenues	$ 1,174,983	$ 726,723	$ 549,547	**$ 2,451,253**
Additions to plant and facilities	(80,494)	108,002	81,608	**109,116**
Retirement of indebtedness	115,078	25,440	22,148	**162,666**
Other additions	947,638	649,695	441,591	**2,038,924**
Total revenues and other additions	2,157,205	1,509,860	1,094,894	**4,761,959**
Expenditures and other deductions:				
Current fund expenditures	1,046,091	785,369	746,367	**2,577,827**
Expended for plant, facilities, and disposals	(116,692)	124,213	100,609	**108,130**
Bond issues, issuance costs, and retirements	175,748	60,168	48,157	**284,073**
Debt service requirements	23,875	43,494	19,732	**87,101**
Depreciation and amortization	86,154	64,746	36,577	**187,477**
Other deductions	803,828	338,622	117,192	**1,259,642**
Total expenditures and deductions	2,019,004	1,416,612	1,068,634	**4,504,250**
Net increase (decrease) for the year	138,201	93,248	26,260	**257,709**
Fund balance, July 1, as restated	1,380,902	1,730,217	929,059	**4,040,178**
Fund balance, June 30	**$ 1,519,103**	**$ 1,823,465**	**$ 955,319**	**$ 4,297,887**

Condensed Statement of Current Fund Revenues, Expenditures, and Other Changes
Major and Aggregate Non-major Discretely Presented Component Units
Colleges and Universities
For the Fiscal Year Ended June 30, 2001

	Indiana University	Purdue University	Non-major universities	Total
Revenues:	$ 1,782,500	$ 1,186,580	$ 919,946	$ 3,889,026
Expenditures and mandatory transfers:				
Expenditures:				
Educational and general	1,374,421	911,715	744,913	3,031,049
Auxiliary enterprises	298,449	136,374	109,129	543,952
Mandatory transfers	58,680	50,440	20,109	129,229
Total expenditures and mandatory transfers	1,731,550	1,098,529	874,151	3,704,230
Other transfers and additions (deductions):	(43,998)	(21,427)	(36,721)	(102,146)
Increase (decrease) in fund balance	**$ 6,952**	**$ 66,624**	**$ 9,074**	**$ 82,650**

Condensed Statement of Revenues, Expenses and Changes in Retained Earnings
Major and Aggregate Non-major Discretely Presented Component Units
Proprietary fund types
For the Fiscal Year Ended June 30, 2001

	Indiana Bond Bank	Indiana Housing Finance Authority	Non-major component units	Total
Operating revenues:	$ 70,489	$ 88,016	$ 56,839	**$ 215,344**
Operating expenses:	3,751	8,694	21,839	**34,284**
Operating income (loss)	66,738	79,322	35,000	**181,060**
Nonoperating revenues (expenses):	(66,968)	(38,493)	(7,783)	**(113,244)**
Income before operating transfers	(230)	40,829	27,217	**67,816**
Operating transfers in (out)	-	-	(2,328)	**(2,328)**
Net income (loss)	(230)	40,829	24,889	**65,488**
Retained earnings, July 1, as restated	11,827	89,558	335,623	**437,008**
Retained earnings, June 30	**$ 11,597**	**$ 130,387**	**$ 360,512**	**$ 502,496**

Condensed Statement of Plan Net Assets
Major Discretely Presented Component Units
Pension Trust Funds
June 30, 2001

	Public Employees' Retirement Fund	State Teachers' Retirement Fund	Totals
Assets			
Cash, cash equivalents and receivables	$ 742,915	$ 532,750	$ 1,275,665
Securities lending collateral	1,394,895	586,199	1,981,094
Investments	9,669,065	5,502,486	15,171,551
Property, plant, and equipment net of accumulated depreciation	46	13	59
Total assets	**$ 11,806,921**	**$ 6,621,448**	**$ 18,428,369**
Liabilities			
Payables	$ 348,257	$ 224,490	$ 572,747
Securities lending collateral	1,394,895	586,199	1,981,094
Total liabilities	1,743,152	810,689	2,553,841
Fund balance			
Reserved for employees pension benefits	10,063,769	5,810,759	15,874,528
Total fund balance	10,063,769	5,810,759	15,874,528
Total liabilities and fund balance	**$ 11,806,921**	**$ 6,621,448**	**$ 18,428,369**

Condensed Statement of Changes in Plan Net Assets
Major Discretely Presented Component Units
Pension Trust Funds
For the Year Ended June 30, 2001

	Public Employees' Retirement Fund	State Teachers' Retirement Fund	Totals
Additions	$ 129,336	$ 830,960	$ 960,296
Deductions	364,539	597,786	962,325
Net increase (decrease) in net assets	(235,203)	233,174	(2,029)
Net assets held in trust for pension benefits, July 1, as restated	10,298,972	5,577,585	15,876,557
Net assets held in trust for pension benefits, June 30	**$ 10,063,769**	**$ 5,810,759**	**$ 15,874,528**

J. Employee Retirement Systems and Plans

The State of Indiana sponsors eight public employee retirement systems (PERS) that are included in the State's financial statements. They are reported and administered as described in Note IA.

Summary of Significant Accounting Policies (Primary government and discretely presented component units)
Contributions are recognized when received with accrual adjustments at June 30, 2001. The accrual for contributions receivable is estimated for each retirement fund on the basis that best represents that fund's receivable. The different basis include actual third quarter contributions received during the quarter ended June 30, 2001, actual contributions received in July for work days in June, or a combination of the two. Legislators receive the majority of their pay in January and February and the contributions are transferred on the pay dates. Therefore, no receivable is established for the legislators' retirement funds.

Benefits paid are recognized when paid with an accrual adjustment at June 30, 2001. The accrual for benefits payable is based on benefits due at June 30 but not paid until July. Refunds are recognized when paid.

Investments of defined benefit plans are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

The buildings purchased as investments by the Public Employees Retirement Fund (PERF) are reported at cost as there has not been a recent independent appraisal. The buildings are immaterial to PERF's total investments.

The state sponsors the following defined benefit single-employer plans:

State Police Retirement Fund (Presented as part of primary government)

Plan Description The State Police Retirement Fund (SPRF), is a defined benefit, single-employer PERS, and is administered by the Indiana Department of State Police. Indiana Code 10-1-1 grants authority to the Department to establish and operate an actuarially sound pension plan governed by a pension trust and to make the annual contributions necessary to prevent any deterioration in the actuarial status of the trust fund. The Department has a publicly available audit report that includes financial statements and required supplementary information of the plan. That report may be obtained by writing the Department of State Police, Room N340, IGC-North, Indianapolis, IN 46204.

Funding Policy The pre-1987 plan requires employee contributions of five percent of the salary of a third-year trooper. The 1987 plan applies to all officers hired after June 30, 1987. In addition, state police officers hired prior to July 1, 1987 could elect to be covered under this plan if the employee filed an election with the trustee before July 1, 1989. Participants under the 1987 plan contribute six percent of their monthly base salary.

Periodic employer contributions to the pension plan are determined on an actuarial basis using the entry age normal actuarial cost method. Normal cost is funded on a current basis. The unfunded actuarial accrued liability is funded over a forty year period. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the level percentage of payroll method. The funding policy for normal cost and unfunded actuarial accrued liability should provide sufficient resources to pay employee pension benefits on a timely basis.

The State is required to contribute at an actuarially determined rate; the current rate is 18.3% of covered payroll.

Excise Police and Conservation Enforcement Officers' Retirement Fund (Presented as part of PERF – a discretely presented component unit)

Plan Description The Excise Police and Conservation Enforcement Officers' Retirement Fund (ECRF) is a defined benefit single-employer plan administered by the Board of Trustees of the Public Employees' Retirement Fund. The retirement fund is for employees of the Indiana Department of Natural Resources and Indiana Alcoholic Beverage Commission who are engaged exclusively in the performance of law enforcement duties.

The Excise Police and Conservation Enforcement Officers' Retirement Fund provides retirement, disability, and survivor benefits. Indiana Code 5-10-5.5 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Members are required by statute to contribute three percent of the first $8,500 of annual salary to the Fund. The State of Indiana, as employer, is required by statute to contribute the remaining amount necessary to actuarially finance the coverage; the current rate is 15.7% of covered payroll.

The funding policy for employer contributions of the Excise Police and Conservation Enforcement Officers' Retirement Fund provides for biennial appropriations authorized by the Indiana General Assembly, which when combined with anticipated member contributions are sufficient to actuarially fund benefits (normal cost), amortize the unfunded accrued liability for forty years, and prevent the state's unfunded accrued liability from increasing.

Prosecuting Attorneys' Retirement Fund (Presented as part of PERF – a discretely presented component unit)

Plan Description The Prosecuting Attorneys' Retirement Fund (PARF) is a defined benefit single-employer plan administered by the Board of Trustees of the Public Employees' Retirement Fund. The Prosecuting Attorneys' Retirement Fund provides retirement, disability retirement, and survivor benefits for individuals who serve as a prosecuting attorney or chief deputy prosecuting attorney on or after January 1, 1990. These individuals are paid from the General Fund of the State of Indiana. Indiana Code 33-14-9 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Contributions made by or on the behalf of members are not actuarially determined but are set by statute at three percent (3%) of wages. The amount required to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendations of an actuary, is to be appropriated from the State's General Fund.

Legislators' Retirement System – Legislators' Defined Benefit Plan (Presented as part of PERF – a discretely presented component unit)

Plan Description The Legislators' Retirement System (LRS) is composed of two separate and distinct plans to provide retirement benefits to the members of the General Assembly of the State of Indiana. The Legislators' Defined Benefit Plan (IC 2-3.5-4), a defined benefit single-employer PERS, applies to each member of the General Assembly who was serving on April 30, 1989 and files an election under IC 2-3.5-3-1(b). The Legislators' Defined Benefit Plan provides retirement, disability and survivor benefits. The plan is administered by the Board of Trustees of the Public Employees' Retirement Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy The amount required by the funding policy to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendation of an actuary, is to be appropriated from the State's General Fund.

Judges' Retirement System (Presented as part of PERF – a discretely presented component unit)

Plan Description The Judges' Retirement System (JRS) is a defined benefit single-employer Public Employee Retirement System administered by the Board of Trustees of the Public Employees' Retirement Fund. The Judges' Retirement System provides retirement, disability retirement, and survivor benefits. Coverage is for any person who has served, is serving or shall serve as a regular judge of any of the following courts: Supreme Court of the State of Indiana; Circuit Court of any Judicial Circuit; Indiana Tax Court; County Courts including Circuit, Superior, Criminal, Probate, Juvenile, Municipal and County Court. IC 33-13-10.1 applies to judges beginning service after August 31, 1985. Indiana Code 33-13-8 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Member contributions are established by statute at six percent of total statutory compensation. However, no contribution is required and no such amounts shall be paid on behalf of any participant for more than twenty-two years.

Employer contributions are determined by the Indiana General Assembly as biennial appropriations from the State General Fund. Indiana Code 33-13-8-16(a)(1) provides that this appropriation only include sufficient funds to cover the aggregate liability of the Fund for benefits to the end of the biennium, on an actuarially funded basis. In addition to the General Fund appropriations, the statutes provide for remittance of docket fees and court fees. These are considered employer contributions.

The State sponsors the following defined benefit agent multiple-employer plan:

Public Employees' Retirement Fund (Presented as part of PERF – a discretely presented component unit)

Plan Description The Public Employees' Retirement Fund (PERF) is a defined benefit agent multiple-employer plan administered by the Public Employees' Retirement Fund Board of Trustees. PERF provides retirement, disability retirement, and survivor benefits. Indiana Code 5-10.2 and 5-10.3 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

At June 30, 2001, the number of participating political subdivisions was 1037.

Funding Policy The State of Indiana and any political subdivision that elects to participate in the PERF fund is obligated by statute to make contributions to the plan. The required employer contributions are determined by the Board of Trustees based on actuarial investigation and valuation. PERF funding policy provides for periodic employer contributions at actuarially determined rates, that, expressed as percentage of annual covered payroll, are sufficient to fund the pension portion of the retirement benefit (normal cost), administrative expenses, and anticipated increase in the unfunded actuarial accrued liability for the next fiscal year. In addition, employers must remit quarterly payment of the amortization of the initial prior service cost. The amortization period is forty years for those employers whose effective date of participation was before 1985. Thereafter, employers joining have the prior service cost amortized over fifteen years.

Contributions made by or on the behalf of members are not actuarially determined but are set by statute at three percent (3%) of wages. These contributions are credited to the member's annuity savings account that funds the annuity portion of the retirement benefit.

The State is required to contribute for state employees at an actuarially determined rate; the current rate is 5.0% of covered payroll.

The Annual Pension Cost and Net Pension Obligations, the significant actuarial assumptions, and the historical trend information of the single and agent multiple employer defined benefit plans are as follows:

	Primary Government	Discretely Presented Component Unit					
	SPRF	PERF -State	PERF-Municipal	ECRF	JRS	PARF	LRS
Annual Pension Cost and Net Pension Obligation (Asset)							
Annual required contribution	$ 9,305.2	$ 61,762.0	$ 99,207.0	$ 1,701.9	$ 11,491.1	$ 425.6	$ 186.7
Interest on net pension obligation	(114.2)	(827.0)	(2,947.0)	(21.6)	(103.1)	31.2	(2.8)
Adjustment to annual required contribution	124.4	889.0	3,169.0	21.7	103.4	(33.1)	3.2
Annual pension cost	9,315.4	61,824.0	99,429.0	1,702.0	11,491.4	423.7	187.1
Contributions made	(9,587.0)	(84,354.0)	(128,754.0)	(1,937.3)	(11,775.0)	(275.3)	(170.1)
Increase (decrease) in net pension obligation	(271.6)	(22,530.0)	(29,325.0)	(235.3)	(283.6)	148.4	17.0
Net pension obligations, beginning of year	(1,631.5)	(11,407.0)	(40,648.0)	(297.7)	(1,422.4)	429.9	(38.5)
Net pension obligations, end of year	$ (1,903.1)	$ (33,937.0)	$ (69,973.0)	$ (533.0)	$ (1,706.0)	$ 578.3	$ (21.5)
Significant Actuarial Assumptions							
Investment rate of return	7.00%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%
Projected future salary increases:							
Total	2.70%	5.00%	5.00%	5.00%	5.00%	5.00%	3.00%
Attributed to inflation	*	*	*	*	*	*	*
Cost of living adjustments	6.00%	2.00%	2.00%	2.00%	N/A	N/A	2.00%
Contribution rates:							
State	17.90%	5.00%	5.00%	15.70%	35.40%	2.80%	*
Plan members	6.00%	3.00%	3.00%	3.00%	6.00%	6.00%	0.00%
Actuarial valuation date	7/1/01	7/1/00	7/1/00	7/1/00	7/1/00	7/1/00	7/1/00
Actuarial cost method	entry age	entry age normal cost	entry age normal cost	entry age normal cost	entry age normal cost	entry age normal cost	accrued benefit (unit credit)
Amortization method	level percent	level dollar	level dollar	level dollar	level dollar	level dollar	level dollar
Amortization period	40 years	40 years	40 years	30 years	40 years	30 years	30 years
Amortization period (from date)	7/1/97	7/1/97	7/1/97	7/1/97	7/1/97	N/A	7/1/92
Amortization period (open or closed)	closed	closed	closed	closed	closed	open	closed
Asset valuation method	smoothed basis	75% of expected actuarial value plus 25% of cost value	75% of expected actuarial value plus 25% of cost value	smoothed basis	smoothed market value	smoothed market value	smoothed market value
Historical Trend Information							
Year ended June 30, 2001							
Annual pension cost (APC)	$ 9,315.4	*	*	*	*	*	*
Percentage of APC contributed	102.9%	*	*	*	*	*	*
Net pension obligations (assets)	$ (1,903.1)	*	*	*	*	*	*
Year ended June 30, 2000							
Annual pension cost (APC)	$ 8,583.9	$ 61,824.0	$ 99,429.0	$ 1,702.0	$ 11,491.4	$ 423.7	$ 187.1
Percentage of APC contributed	111.7%	136.4%	129.5%	113.8%	102.5%	65.0%	90.9%
Net pension obligations (assets)	$ (1,631.5)	$ (33,937.0)	$ (69,973.0)	$ (533.0)	$ (1,706.0)	$ 578.3	$ (21.5)
Year ended June 30, 1999							
Annual pension cost (APC)	$ 8,583.9	$ 67,486.0	$ 100,043.0	$ 1,780.8	$ 11,101.1	$ 389.3	$ 208.9
Percentage of APC contributed	111.9%	115.3%	125.2%	101.1%	99.9%	47.4%	96.0%
Net pension obligations (assets)	$ (628.4)	$ (11,407.0)	$ (40,648.0)	$ (297.7)	$ (1,422.4)	$ 429.9	$ (38.5)
Year ended June 30, 1998							
Annual pension cost (APC)	$ 9,360.0	$ 81,546.0	$ 101,345.0	$ 1,675.7	$ 10,762.5	$ 275.3	$ 170.9
Percentage of APC contributed	98.3%	98.3%	114.4%	102.9%	99.0%	67.0%	117.9%
Net pension obligations (assets)	$ 157.0	$ (1,072.0)	$ (21,905.0)	$ (278.9)	$ (1,428.2)	$ 225.0	$ (46.7)

SPRF - State Police Retirement Fund
PERF - Public Employees' Retirement Fund
ECRF - Excise Police and Conservation Enforcement Officers' Retirement Fund (Administered by the PERF board of trustees)
JRS - Judges' Retirement System (Administered by the PERF board of trustees)
PARF - Prosecuting Attorneys' Retirement Fund (Administered by the PERF board of trustees)
LRS - Legislators' Retirement System (Administered by the PERF board of trustees)
N/A - not applicable
* - information not available

The State sponsors the following cost-sharing multiple-employer plans:

State Teachers' Retirement Fund (Presented as a discretely presented component unit)

Plan Description The State Teachers' Retirement Fund (STRF), is a defined benefit, multiple-employer cost-sharing PERS, administered by the Indiana State Teachers' Retirement Fund Board of Trustees. Indiana Code 21-6.1 governs the requirements of the Fund. The Indiana State Teachers' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Indiana State Teachers' Retirement Fund, 150 West Market Street, Indianapolis, IN 46204, or by calling 317-232-3860.

At June 30, 2001, the number of participating employers was 353.

Funding Policy Each school corporation contributes the employer's share to the Fund for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995 (post July 1, 1995 plan). The employer's share of contributions for certified personnel who are not employed under a federally funded program or were hired before July 1, 1995 is considered to be an obligation of, and is paid by, the State of Indiana (pre July 1, 1995 plan). The pre July 1, 1995 plan is on a "pay as you go" basis. State appropriations are made for the amount of estimated pension benefit pay-outs for each fiscal year. These appropriations include revenues from the State Lottery Commission.

1977 Police Officers' and Firefighters' Pension and Disability Fund (Presented as part of PERF – a discretely presented component unit)

Plan Description The 1977 Police Officers' and Firefighters' Pension and Disability Fund (PFPF) is a defined benefit, multiple employer cost sharing Public Employees Retirement System administered by the Public Employees' Retirement Fund Board of Trustees. PERF provides retirement, disability retirement, and survivor benefits. Indiana Code 36-8-8 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

At June 30, 2001, the number of participating employer units totaled 153 (244 police and fire departments).

Funding Policy A participant is required by statute to contribute six percent of a first-class patrolman or firefighter's salary for the term of their employment up to thirty-two years. Employer contributions are determined actuarially. The funding policy mandated by statute requires quarterly remittances of member and employer contributions based on percentages of locally established estimated salary rates, rather than actual payroll.

The annual required contributions, percentage contributed, and historical trend information, for the cost sharing, multiple-employer plans are as follows:

	Discretely Presented Component Units	
	STRF	PFPF*
Historical Trend Information		
Year ended June 30, 2000		
Annual required contribution	$ 547,532.7	$ 77,365.8
percentage contributed	118%	91%
Year ended June 30, 1999		
Annual required contribution	$ 524,815.6	$ 63,682.3
percentage contributed	117%	100%
Year ended June 30, 1998		
Annual required contribution	$ 508,259.7	$ 57,726.0
percentage contributed	92%	100%

STRF - State Teachers' Retirement Fund
PFPF - 1977 Police Officers and Firefighters' Retirement Fund (Administered by PERF)

* - year ended December 31

The State sponsors the following defined contribution plan:

Legislators' Retirement System – Legislators' Defined Contribution Plan (Presented as part of PERF – a discretely presented component unit)

Plan Description The Legislators' Retirement System (LRS) is composed of two separate and distinct plans to provide retirement benefits to the members of the General Assembly of the State of Indiana. The Legislators' Defined Contribution Plan (IC 2-3.5-5), a single employer defined contribution plan applies to each member of the General Assembly who was serving April 30, 1989 and files an election under IC 2-3.5-3-1(b), and each member of the General Assembly who is elected or appointed after April 30, 1989. The plan provides retirement and survivor benefits. The plan is administered by the Board of Trustees' of the Public Employees' Retirement Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Each participant shall make contributions of five percent of salary received for services after June 30, 1989. Contributions equal to twenty percent of the annual salary received by each participant for services after June 30, 1989, are to made from the biennial appropriation from the State's General Fund. Actual contributions for the year ended June 30, 2001 were $954,471.

Employees of the Indiana Development Finance Authority, the Indiana Housing Finance Authority, and the Indiana Bond Bank are covered by the Public Employees' Retirement Fund (PERF). Contributions made during the fiscal year are included in the disclosures for PERF.

Colleges and Universities

Substantially all permanent employees of the college and universities in the State are covered by either the independently administered Teacher Insurance and Annuity Association (TIAA-CREF) or the Public Employees' Retirement Fund (PERF).

The TIAA-CREF plan is a defined contribution plan with contributions made to individually owned deferred annuity contracts. This plan offers career faculty and professional staff mobility since over 5,000 colleges and universities nationwide participate in TIAA-CREF. These are fixed contribution programs in which the retirement benefits received are based on the contributions made plus interest and dividends. Participants in this plan are immediately vested. Eligibility and contribution requirements for TIAA-CREF are determined by each institution. Indiana University and Purdue University contributed $97.9 million for 12,508 participants for the year ended June 30, 2001. Other staff employees are eligible to become members of PERF. Contributions by the institutions during fiscal year 2001 are included in the disclosures for PERF.

K. Required Supplementary Information

	Primary Government	Discretely Presented Component Unit					
	SPRF	PERF -State	PERF-Municipal	ECRF	JRS	PARF	LRS
Valuation Date: July 1, 2001							
Actuarial value of assets	$ 307,072	*	*	*	*	*	*
Actuarial accrued liability (AAL)	338,867	*	*	*	*	*	*
Excess of assets over (unfunded) AAL	(31,795)	*	*	*	*	*	*
Funded ratio	91%	*	*	*	*	*	*
Covered payroll	51,395	*	*	*	*	*	*
Excess (unfunded) AAL as a percentage of covered payroll	-62%	*	*	*	*	*	*
Valuation Date: July 1, 2000							
Actuarial value of assets	$ 292,383	$ 1,960,018	$ 2,356,058	$ 34,368	$ 103,733	$ 9,781	$ 4,557
Actuarial accrued liability (AAL)	326,016	1,701,091	2,047,213	46,272	182,448	13,943	5,453
Excess of assets over (unfunded) AAL	(33,633)	258,927	308,845	(11,904)	(78,715)	(4,162)	(896)
Funded ratio	90%	115%	115%	74%	57%	70%	84%
Covered payroll	50,898	1,371,496	2,110,957	11,306	30,428	13,422	**
Excess (unfunded) AAL as a percentage of covered payroll	-66%	19%	15%	-105%	-259%	-31%	**
Valuation Date: July 1, 1999							
Actuarial value of assets	$ 273,032	$ 1,828,584	$ 2,179,129	$ 31,510	$ 91,073	$ 8,323	$ 4,319
Actuarial accrued liability (AAL)	303,805	1,583,486	1,904,943	43,368	176,301	13,712	5,473
Excess of assets over (unfunded) AAL	(30,773)	245,098	274,186	(11,858)	(85,228)	(5,389)	(1,154)
Funded ratio	90%	115.48%	114.39%	73%	52%	61%	79%
Covered payroll	46,361	1,271,756	1,978,441	11,317	30,963	12,566	**
Excess (unfunded) AAL as a percentage of covered payroll	-66%	19%	14%	-105%	-275%	-43%	**
Valuation Date: July 1, 1998							
Actuarial value of assets	$ 255,614	$ 1,626,450	$ 1,925,592	$ 28,663	$ 79,594	$ 7,144	$ 4,041
Actuarial accrued liability (AAL)	289,612	1,491,986	1,775,251	41,679	160,845	11,356	5,385
Excess of assets over (unfunded) AAL	(33,998)	134,464	150,341	(13,016)	(81,251)	(4,212)	(1,344)
Funded ratio	88%	109%	108%	69%	49%	63%	75%
Covered payroll	45,187	1,229,903	1,880,259	10,137	30,853	11,673	742
Excess (unfunded) AAL as a percentage of covered payroll	-75%	11%	8%	-128%	-263%	-36%	-181%

SPRF - State Police Retirement Fund
PERF - Public Employees' Retirement Fund
ECRF - Excise Police and Conservation Enforcement Officers' Retirement Fund (Administered by the PERF board of trustees)
JRS - Judges' Retirement System (Administered by the PERF board of trustees)
PARF - Prosecuting Attorneys' Retirement Fund (Administered by the PERF board of trustees)
LRS - Legislators' Retirement System (Administered by the PERF board of trustees)

* - information not available
** The benefit formula is determined based on service rather than compensation. The unfunded liability is expressed per active participant and there are 60 active participants. The unfunded liability per active participant is $14,940.

SUPPLEMENT
TO
APPENDIX A

FINANCIAL AND ECONOMIC
STATEMENT FOR THE STATE OF INDIANA

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This Supplement (the “Supplement”) to the Financial and Economic Statement (the “Statement’) for the State of Indiana (the “State”) is intended to update the Statement with the financial results of the State for fiscal year 2002 and the legislative changes made as a result of the 2002 Special Session of the General Assembly. This Supplement updates information contained in Section IV., State Budget Profile, on pages A-9 through A-15, Section V., Financial Results of Operations, on pages A-15 through A-24, and Section IX., Litigation, on pages A-57 and A-58 of the Statement. Information has been provided by the State Budget Agency and other sources deemed to be reliable.

I. 2002 SPECIAL SESSION OF THE GENERAL ASSEMBLY

On May 2, 2002, Governor Frank O’Bannon called a Special Session of the General Assembly to begin May 14th to address actual and projected budget deficits and tax restructuring.

The Special Session concluded on June 22, 2002 with the passage of House Bill 1001ss (HEA1001ss-2002). The Governor signed the bill into law on June 27, 2002. The bill reduces property taxes by an estimated average of 10%, streamlines and modernizes business taxes, and provides approximately $500 million in recurring revenue to the General Fund. The bill is summarized below.

HEA1001ss–2002: Summary of Key Components

Tax Restructuring Benefits for Individuals

- Eliminates 60% of School General Fund Levy through State-paid Property Tax Replacement Credit**.** (Effective CY 2003)
- Increases Homestead Credit to 20%. (Effective CY2003. Under existing law, credit is set at 10% and would go to 4% in CY 2004).
- Homestead Deduction increased from $6,000 to $35,000. (Effective CY2003)
- Establishes a new 20% Property Tax Replacement Credit (“PTRC”) applicable to all real and individual personal property. (Effective CY2003)
- Restructures the Earned Income Tax Credit (EITC) by providing a credit equal to 6% of the federal credit. (Effective tax year 2003)
- Increases the Renters Deduction from $2,000 to $2,500. (Effective tax year 2003)

Tax Restructuring Benefits for Business

In addition to the school levy relief and the new PTRC described above:

- Eliminates the Corporate Gross Income Tax and the Supplemental Net Income Tax. Raises the Corporate Adjusted Gross Income Tax to 8.5%. (Effective 12/31/02)

- Increases the Research and Development Tax Credit from 5% to 10% and repeals the apportionment formula. (Effective tax year 2003)
- Eliminates the Inventory Tax in the 5th year (for payment in 2007) and gives counties the option to eliminate the Inventory Tax sooner if they pass a local Economic Development Income Tax to provide additional homestead credits.
- Implements an exemption for "production in process" inventory for products to be shipped out of state. (Effective tax year 2003)
- Returns to the 'old' business personal property reassessment rule for payment in 2004 including the 30% floor. (The new rule will be in effect for payment in 2003 with provisions for a 35% inventory adjustment and construction in process).
- Establishes a new Venture Capital Investment Tax Credit capped at $10M per year. (Effective tax year 2004)
- Establishes new certified technology parks to attract high technology businesses.

Replacement Revenue Provisions

- Increases the Sales Tax from 5% to 6%. (Effective 12/1/02.)
- Implements a new Utility Receipts Tax at 1.4% on regulated receipts. (Effective CY2003)
- In order to provide more targeted relief, repeals the current 20% Property Tax Replacement Credit applicable to both real and business personal property. (Effective CY 2003)
- Repeals the existing $37,500 Personal Property Assessed Value Income Tax Credit.

Budget and Other Provisions

- Increases Cigarette Tax by $.40 per pack plus a 3% increase for other tobacco products. (Effective 7/1/02)
- Increases gaming taxes and permits flexible boarding ("dockside") gaming effective 7/1/02. The Admissions Tax would remain at $3 (based on a turnstile count) and the Wagering Tax will be graduated from 15%-35%. $33M in revenue sharing for all counties except riverboat counties will be provided. Distributions to local governments in counties with riverboat operations and State agencies receiving a portion of Admissions Tax are guaranteed and capped at 2002 levels.
- Appropriates $15 million per year to the 21st Century Research and Technology Fund for FY 2003 and FY 2004 from the State general fund.
- Lottery winnings in excess of $1,200 will be subject to the Indiana income tax.
- Institutes withholding on riverboat winnings greater than $1,200.

- Establishes new State spending controls and revises local levy controls. In each case, the controls will be based on the six-year average increase in Indiana personal income growth beginning in FY2006. For FY2004 and 2005 expenditure increases are limited to 3.5%.
- Increases the gas tax by 3 cents effective 1/1/03 with 1 cent for the State, 1 cent for local units, and 1 cent for bonding debt service. The one-cent increase for bonding will generate about $350 million in total construction activity.
- Incorporates new TIF provisions applicable in circumstances whereby changes in property taxation have impacted TIF revenues.

A more thorough discussion and a preliminary fiscal impact of the provisions of HEA1001ss-2002 is contained in the Fiscal Impact Statement prepared by the non-partisan Legislative Services Agency on June 21, 2002, which is attached and made part of this Supplement as Exhibit 1.

II. FINANCIAL RESULTS OF OPERATIONS FOR FY2002

The State closed FY2002 with $534.2 million in Combined Fund Balances, equaling 6.1% of Operating Revenues. This included $265 million in Tuition Reserve, $269.2 million in the Rainy Day Fund and a zero balance in the General Fund. Revenues for FY2002 totaled $8,708.9 million, down from FY2001 levels by $343.2 or 3.8%, and falling below November 1, 2001 projections by $296.7 million or 3.3%. Total revenues are broken down into Sales tax, totaling $3,761.4 million, up 2% over FY2001, Individual Income tax totaling $3,540.8 million, down 6.3% from FY2001, Corporate Income tax collections totaling $709.4 million, down 17.1% and other revenue totaling $697.2, down 4.5% from FY2001.

The State was able to end FY2002 with positive balances by cutting spending by $145.1 million and instituting a series of transfers and payment delays. The State transferred $200 million from the Lottery and Gaming Surplus Account, $100 million from Medicaid Reserve, and $277.1 million from the Rainy Day Fund to the General Fund. The Board of Finance, comprised of the Treasurer, the Auditor and the Governor, also authorized $396.3 million of transfers to the General Fund in FY2002 from other Dedicated Funds. The State also delayed the normal June payment to local schools and public universities to July, resulting in $373.7 million in savings for FY2002.

The details of the Fiscal Year close-out, Fund Balances, and revenues can be found in the State of Indiana General Fund, Property Tax Replacement Fund and Rainy Day Fund Summaries, Fiscal Year Ending June 30, 2002, which is attached and made part of this Supplement as Exhibit 2.

III. LITIGATION

In July, 2001 the State lost a lawsuit to Petricia Day (Day Case), which invalidates the portion of the Medicaid disability standard that permits the State to ignore applicants who are unable to pay but have a medical condition that may improve with treatment, thus expanding the number of people eligible for Medicaid disability payments.

The fiscal impact of the ruling was estimated to be $63.9 million over the current biennium due to newly eligible participants, and $322.7 million payable in FY2003 and 2004 in possible retroactive payments. These projections reflected actuarial estimates that approximately 18,000 potential members existed. To become a member of the Day class, participants had to submit proof of eligibility by July 12, 2002. As of July 30, 2002, there were only 3,665 members of the Day class. Based on the number of Day class members, the fiscal estimate for possible retroactive payments has been reduced to $50 million.

In late May, D&M Healthcare v. O'Bannon was filed in Marion Superior Court. The lawsuit contends that Governor O'Bannon's 2001 veto of certain legislation governing the Medicaid program was technically defective, so that the legislation was not in fact vetoed but became law. If the plaintiffs succeed in this litigation, certain Medicaid rules would be invalidated, leading to a cost to the State estimated at $19 million over two fiscal years in additional Medicaid reimbursements.

EXHIBIT 1

LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

FISCAL IMPACT STATEMENT

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LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6004 **DATE PREPARED:** Jun 21, 2002
BILL NUMBER: HB 1001 (SS) **BILL AMENDED:** Jun 21, 2002

SUBJECT: State and Local Fiscal Matters and Appropriations and Tax Restructuring.

FISCAL ANALYST: Diane Powers; Alan Gossard
PHONE NUMBER: 232-9853; 233-3546

FUNDS AFFECTED: X GENERAL
X DEDICATED
X FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill has the following provisions.

(1) Imposes spending limits on state general spending.

Gaming Provisions:
(2) Provides that a riverboat may implement flexible scheduling after submitting a plan and obtaining the approval of the Gaming Commission.
(3) Provides that a riverboat that implements flexible scheduling may conduct gambling games and allow the continuous ingress and egress of passengers for the purpose of gambling while the riverboat is docked.
(4) Provides that a riverboat that implements flexible scheduling is subject to a $3 Admissions Tax for each person admitted to the riverboat and a graduated Wagering Tax with a top rate of 35% for adjusted gross receipts that exceed $150,000,000.
(5) Provides that in the case of a riverboat that does not implement flexible scheduling the Admissions Tax remains $3 for each person admitted to a gambling excursion and the Wagering Tax is increased to 22.5%.
(6) Provides that beginning in 2003 the various entities receiving riverboat Admissions Taxes and Wagering Taxes may not receive more tax revenue than each entity received in 2002.
(7) Provides that if the Admissions Tax revenue received by an entity in a state fiscal year is less than the entity's 2002 revenue, the entity shall receive a supplemental distribution equal to the difference from Wagering Tax revenues deposited into the Property Tax Replacement Fund.
(8) Provides that the excess Admissions and Wagering Tax revenues that would exceed the entity's 2002 Admissions or Wagering Tax revenues, be deposited into the Property Tax Replacement Fund.
(9) Provides that the first $33,000,000 of wagering taxes collected in a state fiscal year shall be set aside for revenue sharing.
(10) Provides revenue sharing to the counties that do not have riverboats based upon population.
(11) Distributes revenue sharing money within the counties to the cities, towns, and counties by population within the county.
(12) Provides Wagering Taxes not set aside for revenue sharing or designated for distribution to the cities

and counties that are the home docks of the riverboats shall be paid to the Property Tax Replacement Fund.

(13) Provides for a distribution from the Property Tax Replacement Fund to the Build Indiana Fund.
(14) Establishes the Indiana Department of Gaming Research to research gaming issues.

Property Tax Issues:
(15) Reinstates the old administrative rules concerning personal property assessment beginning with the March 1, 2003, assessment date.
(16) For the March 1, 2002, assessment date, requires the assessment of tangible personal property under the new rules, except that assessment of construction in process at 10% of cost and the 35% inventory adjustment under the old rules apply.
(17) Establishes a property tax exemption for certain inventory that is altered into a new form and will be shipped, or will be incorporated into personal property that will be shipped, to a destination outside Indiana.
(18) Establishes a 100% deduction for the assessed value of inventory beginning with assessments made in 2006.
(19) Authorizes a county to provide a property tax deduction equal to 100% of the assessed value of inventory in that county for assessments made in a calendar year that ends before January 1, 2006.
(20) Provides that a county may impose an additional Economic Development Income Tax for the purpose of providing increased homestead credits to offset a county or statewide inventory tax deduction.
(21) Changes the assessed value growth quotient formula to allow property tax levies to increase at the rate that Indiana nonfarm personal income increases.
(22) Increases the standard property tax deduction for homesteads from $6,000 to $35,000.
(23) Increases the homestead credit to 20% beginning in 2003.
(24) Increases the property tax replacement credit (PTRC) rate for all property taxes levied for a school general fund to 60%.
(25) Provides that the PTRC rate for real property owned by individuals and businesses and for personal property owned by an individual is 20%.
(26) Provides additional remedies for the TIF areas that have reduced revenues as a result of certain changes in property tax laws.

Other Tax Provisions:
(27) Establishes a Utilities Receipts Tax.
(28) Eliminates references to the Gross Income Tax in various laws.
(29) Increases the Sales Tax from 5% to 6%.
(30) Increases the Adjusted Gross Income Tax on corporations from 3.4% to 8.5%.
(31) Eliminates the Adjusted Gross Income Tax exemption for lottery winnings that exceed $1,200.
(32) Establishes procedures for withholding Adjusted Gross Income Taxes from riverboat gambling winnings and lottery winnings.
(33) Increases the renter's deduction from $2,000 to $2,500.
(34) Extends the earned income tax credit through 2005 and sets the credit at 6% of the federal earned income tax credit.
(35) Extends the research expense credit through 2004, eliminates the apportionment formula, and increases the credit from 5% to 10%.
(36) Establishes a venture capital investment tax credit.
(37) Increases the Gasoline Tax by 3 cents per gallon (to 18 cents per gallon).
(38) Increases the Cigarette Tax from $0.155 per pack to $0.555 per pack.
(39) Increases the Tobacco Products Tax from 15% to 18%.

Miscellaneous Provisions:
(40) Prohibits the closure of Evansville State Psychiatric Treatment Center for Children without legislative approval and establishes certain protections for employees of the center.
(41) Authorizes a redevelopment commission to establish a certified technology park under certain conditions to promote high technology activities by capturing incremental property tax proceeds and incremental income taxes and sales taxes attributable to the technology park.
(42) Repeals: (1) the Gross Income Tax and the offsetting credit against Adjusted Gross Income Tax for Gross Income Tax paid by a taxpayer; (2) the Supplemental Net Income Tax; (3) a redundant provision concerning the Northwest Indiana Law Enforcement Training Center; (4) the $37,500 business personal property tax credit against state tax liability; and (5) the obsolete Bank, Production Credit Association, and Savings and Loan Association Taxes.
(43)Voids rules of the Department of Local Governmental Finance concerning the shelter allowance and the personal property tax manual.
(44) Cancels the appropriation made in the 2001 Budget Bill to the Twenty-first Century Research and Technology Fund and appropriates $15,000,000 to that fund from the state General Fund for FY 2003 and FY 2004.
(45) Requires a notice from assessing officials to homeowners to described the property tax relief granted by this act.
(46) Makes other changes.

Effective Date: (Amended) January 1, 2002 (retroactive); upon passage; July 1, 2002; August 1, 2002; December 1, 2002; January 1, 2003; July 1, 2003; January 1, 2004.

Explanation of State Expenditures:

Summary **—** This bill contains several provisions that impact state expenditures and revenues. There is a net increase in estimated expenditures of $437.4 M in FY 2003, $976.9 M in FY 2004, and $1,098.5 M in FY 2005. Estimated net revenue increases total $1,005.5 M in FY 2003, $1,487.3 M in FY 2004, and $1,553.9 M in FY 2005. The net impact of the revenue increases over estimated expenditure is approximately $568.1 M in FY 2003, $510.4 M in FY 2004, and $455.4 M in FY 2005. The fiscal impact of each provision is summarized in the table below.

Net Expenditure and Revenue Impacts on GF and PTRF			
Provision	**FY 2003**	**FY 2004**	**FY 2005**
State Expenditures:			
Homestead Credit- (20%)	$77.7 M	$248.8 M	$351.9 M
PTRC - Eliminate on All Property	(474.9 M)	(962.7 M)	(988.7 M)
PTRC- 20% on Real Prop, MH's, Indiv PP	286.3 M	595.2 M	626.1 M
School General Fund PTRF Credit #	533.5 M	1,081.3 M	1,110.5 M
School Transportation Fund PTRC Savings	(0.2 M)	(0.7 M)	(1.3 M)
21st Century Research & Technology Fund	15.0 M	15.0 M	–
Total Change in Expenditures	$437.4 M	$976.9 M	$1,098.5 M
State Revenues:			
Cigarette Taxes	$268.2 M	$293.5 M	$295.0 M
Corp. Gross- Elimination	(81.7 M)	(168.2 M)	(173.2 M)
Corp. AGI Increase/SNIT Elimination	28.6 M	58.9 M	60.7 M
Utility Taxes	29.1 M	59.9 M	61.7 M
Earned Income Tax Credit- 6% Fed. Credit	(8.7 M)	(21.4 M)	(22.7 M)
PPTRC: Elimination of $37,500 AV Credit	--	96.0 M	97.9 M
Renter's Deduction- Additional $500	--	(10.9 M)	(11.1 M)
Research Expense Credit	(23.0 M)	(47.9 M)	(24.8 M)
Sales Tax - Additional 1%	393.0 M	806.4 M	827.4 M
Taxation of Lottery Winnings	3.9 M	3.9 M	3.9 M
Withholding on Gambling Winnings	15.0 M	15.0 M	15.0 M
Riverboat Admissions Tax	(38.0 M)	(36.2 M)	(34.4 M)
Riverboat Wagering Tax*	290.4 M	314.6 M	339.8 M
Cap on Riverboat Wagering Tax to BIF	128.7 M	128.7 M	128.7 M
Venture Capital Investment Tax Credit	--	(5.0 M)	(10.0 M)
Total Change in Revenues	$1,005.5 M	$1,487.3 M	$1,553.9 M
Balance	$568.1 M	$510.4 M	$455.4 M

FY 2004 & FY 2005 expenditure growth rates reflect the current revenue forecast and not the historical increases in these expenditures. Growth rates could be higher depending on future appropriations.
*Net amount after subtraction of $33 M earmark for Local Revenue Sharing.

Homestead Credit Increase: Currently, Homestead Credits are equal to 10% of homeowners' property tax liability. The Homestead Credit percentage is scheduled to change to 4% in CY 2004. This provision would increase the Homestead Credit percentage to 20% for all years beginning with CY 2003. In CY 2001, Homestead Credits (at 10%) amounted to $195.5 M.

In addition to the increase in the Homestead Credit rate, the credits for school levies and the various deductions and exemptions found elsewhere in this bill will also have an impact in the cost of providing homestead credits. Under the bill, homestead credit would be applied *after* PTRC credits have been applied. The following table summarizes all of the changes in this bill that affect the cost of the Homestead Credit. The school levy credits and AV deduction changes were considered first. The resulting Homestead Credit cost serves as the base for the change in the credit percentage.

Summary of Homestead Credit Cost Change					
Cal. Year	**Current %**	**New %**	**Cost Change From School Credits / Deductions**	**Cost Change From Percentage Change**	**Total Cost Change**
2003	10%	20%	($47.2 M)	$202.6 M	$155.4 M
2004	4%	20%	(16.1 M)	358.2 M	342.1 M
2005	4%	20%	(17.0 M)	378.7 M	361.7 M

The following table is a summary of the total Homestead Credit cost changes by state fiscal year.

Summary of Homestead Credit Cost Change	
Fiscal Year	**Total Cost Change**
2003	$77.7 M
2004	248.8 M
2005	351.9 M

Property Tax Replacement Credit: Under current law, the state pays Property Tax Replacement Credits (PTRC) in the amount of 20% on most school and civil taxing unit operating fund levies. PTRC is currently paid from the Property Tax Replacement Fund, which is annually supplemented by the state General Fund.

Under this proposal, business personal property would no longer qualify for PTRC payments beginning in CY 2003. Real property, mobile homes, and non-business personal property would continue to qualify for PTRC payments and the PTRC rate would remain at 20%. The PTRC expense was $886.5 M in CY 2001 and has grown at an average annual rate of 4.3% over the last five years.

In addition to the change in property types that qualify for the credit, the school property tax credits found elsewhere in this bill will also have an impact in the cost of providing Property Tax Replacement Credits. The following table contrasts the cost of PTRC under current law and under the proposal.

Summary of PTRC Cost			
Cal. Year	Cost of PTRC under Current Law	Cost of PTRC under Proposal	Total Cost Change
2003	$949.9 M	$572.6 M	$ (377.3 M)
2004	975.5 M	617.8 M	(357.7 M)
2005	1,001.8 M	634.4 M	(367.4 M)

The following table is a summary of the total PTRC cost changes by state fiscal year.

Summary of PTRC Cost Change	
Fiscal Year	Total Cost Change
2003	$ (188.6 M)
2004	(367.5 M)
2005	(362.5 M)

School General Fund PTRF Credit. The bill replaces 60% of the gross school general fund property tax levy through the payment of additional state property tax replacement credits. The school formula and school budget process remain unchanged. The statewide total school general fund levy is estimated at $1,778.2 M in CY 2003. No school formula currently exists for CY 2004. Assuming a 2.7% annual increase in levies, the levies eligible for the 60% credit are estimated to be $1,826.2 M in CY 2004 and $1,875.5 M in CY 2005. School general fund credit expenditures from the Property Tax Replacement Fund are estimated at about $533.5 M for FY 2003 (½ of CY 2003), $1,081.3 M for FY 2004, and $1,110.5 M for FY 2005.

School Transportation Fund PTRC Savings: The state pays PTRC on school transportation fund levies. As a result of the change that this bill makes in calculating the maximum levies for these funds, the levies and the state PTRC paid on those levies will be reduced slightly. The state is expected to save approximately $0.2 M in FY 2003, $0.7 M in FY 2004, and $1.3 M in FY 2005.

21st Century Research and Technology Fund: The bill appropriates $15 M from the state General Fund to the 21st Century Research and Technology Fund in FY 2003 and FY 2004.

Earned Income Tax Credit Refunds: The refundable portion of the earned income tax credit (EITC) qualifies as Maintenance of Effort (MOE) expenditures and would contribute toward the state's annual MOE requirement under the Temporary Assistance to Needy Families (TANF) program. Based on simulations using 1999 tax return data, EITC refunds for those eligible under current law total an estimated $13.8 M. The simulations also suggest that refunds under the bill would increase by about $1 M.

PTRC Distributions: The state currently makes six Property Tax Replacement Credit distributions to county treasurers each calendar year from the Property Tax Replacement Fund (PTRF). Under HEA 1001 (2001), the May 2001 distribution was delayed until July 2001. After 2001, the original payment schedule is to be resumed. This means that the last FY 2001 payment was delayed until FY 2002, thereby creating five payments in FY 2001 and seven payments in FY 2002. This bill would require that the alternative schedule is to be used each year. The continued delay of the May payment until July would reduce the number of payments in FY 2002 from seven to six and reduce state expenditures from the PTRF by about $154 M in FY 2002.

Expenditure Limits: This bill establishes a maximum annual percentage change for state government expenditures to be based on the percentage change in Indiana non-farm personal income over the last six calendar years. The bill excludes expenditures of revenue derived from gifts, federal funds, dedicated funds, intergovernmental transfers, damage awards, or property sales. Expenditures from transfers of funds between the General Fund, the PTRF and Rainy Day Fund, reserve fund deposits, refunds of intergovernmental transfers, state capital projects, judgements or settlements, distributions of specified state tax revenues to local units, and Motor Vehicle Excise Tax replacement payments are also exempt from the expenditure limits. The expenditure limit is applied to appropriations from the General Fund, the Property Tax Replacement Fund, and the Counter-Cyclical Revenue and Economic Stabilization Fund (Rainy Day Fund).

The bill directs the Budget Agency to compute the new state spending growth quotient before December 31 in each even-numbered year. The state spending growth quotient is equal to the lesser of the six-year average increase in Indiana non-farm personal income or 6%. The bill allows the state spending cap to be increased or decreased to account for new or reduced taxes, fees, exemptions, deductions, or credits adopted after June 30, 2002.

This provision applies to appropriations beginning in FY 2004. The bill limits expenditure increases to 3.5% annually for FY 2004 and FY 2005. The new formula for expenditure limits would take effect beginning FY 2006.

The FY 2004 expenditure limit is equal to FY 2003 appropriations minus $243 M (for certain reversions made by state agencies) multiplied by 1.035. According to the November 14, 2001, Surplus Statement, FY 2003 budgeted appropriations are $10,497.9 M. The FY 2004 spending cap would be limited to $10,613.8 M and $10,985.3 M in FY 2005.

Income Tax Changes: The Department of State Revenue (DOR) will incur some administrative expenses related to the revision of tax forms, instructions, and computer programs due to: (1) the change in the individual AGI tax rate; (2) withholding requirements for gambling and lottery winnings; and (3) changes to the renter's deduction, earned income tax credit, and exemption for lottery winnings. These expenses presumably can be absorbed given the DOR's existing budget and resources.

Certified Technology Parks: The bill requires the Indiana Department of Commerce (IDOC), the Department of Revenue (DOR), and the State Treasurer to perform functions relating to the technology parks. These agencies should be able to perform these functions under current budget and resource levels.

The bill requires the IDOC to certify technology parks proposed by local redevelopment commissions and specifies an application and review process to be followed by the IDOC. The bill also requires the DOR to determine the base gross retail and income tax base period amounts for a certified technology park. Every October, the DOR is required to calculate the incremental income and sales tax revenues for each technology park for the preceding state fiscal year. The bill also requires the State Treasurer to establish an Incremental Tax Financing Fund for each certified technology park. <u>The bill limits the aggregate amount of income and sales tax that can be deposited in a particular incremental tax financing fund for a certified technology park to $5 M over the life of the park.</u> Each month, money in a technology park's Incremental Tax Financing Fund is distributed to the redevelopment commission operating the park for deposit in its Certified Technology

Park Fund.

Venture Capital Investment Tax Credit: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this credit. Due to the annual limit on credits that may be granted, the DOR also would have to chronologically order claims for the tax credit each year and approve credits in this order. Claims for the credit could not be approved once the annual maximum is reached. Under the bill, the taxpayer would have to claim the tax credit on a state tax return or returns in a manner prescribed by the DOR. In addition, the bill would require the taxpayer to provide the DOR with proof of the qualified investment and all information that the DOR determines necessary for the calculation of the tax credit. The expenses relating to these changes and additional responsibilities presumably could be absorbed given the DOR's existing budget and resources.

The Indiana Department of Commerce (IDOC) is required to certify qualified businesses for purposes of the tax credit. A business must apply to IDOC for the certification. The IDOC must provide a copy of the certification to investors in the business for inclusion in tax filings. The bill allows the IDOC to impose an application fee of not more than $200.

Evansville State Psychiatric Treatment Center for Children: This bill has certain provisions regarding the downsizing or closure of Evansville State Psychiatric Treatment Center for Children (EPCC). The Division of Mental Health and Addiction may not terminate, in whole or in part, normal patient care or other operations at EPCC without the specific statutory authority of the General Assembly. The Division is prohibited from reducing staffing levels at EPCC below those in effect on January 1, 2002. Further, the Division may not remove, transfer, or discharge any patient unless it is in the patient's best interest. The Division is also prohibited from interfering in the admission of patients to the Evansville State Psychiatric Treatment Center for Children. FSSA estimates that these provisions will result in the elimination of savings of $1.6 M. These funds were originally planned to pay for community placements and services for patients housed at the facility. In addition, this bill contains provisions for the Division of Disability, Aging, and Rehabilitative Services.

Department of Gaming Research: The bill establishes the Indiana Department of Gaming Research under the control of the Governor who shall appoint or employ the executive director and others in the Department. The Department is required to research and analyze data and public policy issues relating to all aspects of gaming in Indiana for the enhancement of (1) the Indiana Lottery, (2) pari-mutuel horse racing, (3) charity gaming, and (4) riverboat casino gambling. The bill also requires the Department to study and make findings and recommendations on (1) alternative methods of taxing gaming entities; (2) the impact of flexible boarding on the gaming industry; (3) the impact of breed development programs and sire stakes racing in Indiana; and (4) other issues considered appropriate for the Department by the Indiana Lottery Commission, Indiana Horse Racing Commission, Department of State Revenue, or the Indiana Gaming Commission. The bill requires the Department to impose an annual fee of $25,000 on each licensed riverboat in Indiana and each pari-mutuel permit holder. This fee would generate $300,000 annually to fund the operations of the Department.

Explanation of State Revenues:

Cigarette Taxes: This bill increases the Cigarette Tax on packs of 20 cigarettes to $0.555 from the current rate of $0.155 and adjusts the statutory percentage distribution of Cigarette Tax revenue. Based on data from the *November 14, 2001, Revenue Forecast Update*, the proposed Cigarette Tax rate and distributional changes will generate an additional $268.2 M in FY 2003, $293.5 M in FY 2004, and $295.0 M in FY 2005. The additional revenue is to be deposited into the state General Fund.

Corporate Taxes: This bill eliminates the Gross Income Tax and the Supplemental Net Income Tax and establishes a Corporate Adjusted Gross Income Tax at a rate of 8.5% applied to apportioned Indiana AGI.

This bill eliminates the Indiana Corporate Gross Income Tax, IC 6-2.1, as of December 31, 2002, for all business except utilities (which are now subject to a Utility Receipts Tax as explained below). Taxpayers filing on a calendar year basis will end their year and pay the final payment on April 15, 2003. Fiscal year Corporate Gross Income Tax filers will also end their year on December 31, 2002, and make a payment for the shortened tax year on April 15, 2003. They may then begin a new shortened year in 2003 to re-establish their fiscal year for tax purposes.

Background: Currently the Corporate Gross Income Tax applies to regular corporations who must compute their gross tax liability and their adjusted gross tax liability and pay the greater of the two. A corporation must then subtract that liability from apportioned Indiana Adjusted Gross Income (AGI) and pay Supplemental Net Income Tax (SNIT) at a rate of 4.5% on that tax base. The effective tax rate for a taxpayer paying Adjusted Gross Income Tax and Supplemental Net Income Tax is 7.747%.

Methodology: The impact of eliminating the Gross Income Tax is estimated by calculating Indiana Corporate AGI from Supplemental Net Income Tax payments. By applying the effective rate of 7.747% to the tax base and subtracting total corporate tax receipts for a given year, the effect of the Gross Income Tax on Indiana's corporate income tax revenue is isolated. The estimate of revenue lost in FY 2003, one-half the annual total for that year, is $81.7 M, $168.2 M in FY 2004, and $173.2 M in FY 2005.

Increasing the tax rate from an effective rate of 7.747% to 8.5% on apportioned Indiana AGI is effective for taxable years beginning after December 31, 2002. Therefore, it would take effect mid-way through state FY 2003. If corporations adjusted tax payments immediately, the impact is estimated to be an additional $28.6 M in FY 2003. It is likely that taxpayers will not adjust on time and that most taxpayers will not remit the full amount for the higher rate until filing after the end of their fiscal year. In that case most or all of the $28.6 M will be shifted into FY 2004. Adjusted Gross Income Tax revenue collections would increase by an additional $58.9 M in FY 2004, and $60.7 M in FY 2005.

Taxation of Public Utilities Income: This bill creates a Utilities Receipts Tax rate on gross receipts of retail activity at a rate of 1.4%. Utilities would also pay the corporate Adjusted Gross Income Tax, but would no longer pay the SNIT. The interaction of these tax changes will effectively increase revenue from public utilities by approximately $58.2 M in CY 2003. Based on estimated payments, an additional $29.1 M would be generated in FY 2003, $59.9 M in FY 2004, and $61.7 M in FY 2005.

Expansion of Earned Income Tax Credit: The bill eliminates the current Earned Income Tax Credit (EITC) and establishes a credit equal to 6% of the federal Earned Income Credit only in tax years 2003, 2004, and 2005. The current EITC is scheduled to sunset after tax year 2003. The proposed EITC would sunset after tax year 2005. The bill is estimated to increase the cost of the EITC above the current base cost of the credit by approximately $8.7 M in FY 2003, $21.4 M in FY 2004, and $22.7 M in FY 2005.

Federal income tax data for tax year 1999 indicates that the federal credit was claimed on 356,503 income tax returns filed by Indiana residents. These credits totaled $556.6 M. The estimates are based on the 1999 total inflated by 3.5% to reflect recent annual growth in the credit total. The net revenue loss assumes a base cost equal to $17.5 M for the current EITC. Data from 1999 state income tax records indicates that approximately 105,000 taxpayers were eligible to claim the EITC under current law. The credit amount available to these taxpayers is estimated to total $17.5 M. The FY 2003 total assumes that the change to the EITC will affect monthly withholding during the second half of the fiscal year.

Personal Property Tax Credit: This bill would repeal the existing $37,500 AV credit against state tax liability for personal property (PPTRC). The cost of the credit under current law is estimated at $96.0 M in FY 2004 and $97.9 M in FY 2005. The state would not experience this revenue reduction under the proposal.

Increase in Renter's Deduction: The bill increases the renter's deduction from $2,000 to $2,500 beginning in tax year 2003. The revenue loss from this change is estimated to total $10.9 M in FY 2004 and $11.1 M in FY 2005. Under current law, a taxpayer may deduct from his or her state taxable income an amount equal to the total rent paid during a tax year up to $2,000. The rent deducted must be paid on the taxpayer's principal place of residence. In 1999, 637,500 taxpayers deducted rent totaling approximately $1,187.9 M under the renter's deduction. The estimated impacts are based on the 1999 deduction total inflated to account for trends before 1999 in the average deduction amount and number of taxpayers claiming the deduction.

Research Expense Credit: This bill eliminates the apportionment factor for the Research Expense Credit and increases the credit from 5% to 10% for tax years beginning January 1, 2003. It is currently set to expire December 31, 2002. This bill also extends the credit for 2 years. It is estimated that these changes will result in a revenue loss of approximately $23 M in FY 2003 (due to changes in estimated quarterly payments), $47.9 M in FY 2004, and $24.8 M in FY 2005.

Over the past four years, the current Research Expense Credit has ranged from $9.2 M in FY 1996 to $24.2 M in FY 1999. It is difficult to estimate the exact impact of continuing this tax credit since it is dependent on both the amount of research expenses individual taxpayers make during the year and their total tax liability.

Apportionment Provision: This modification would mean that the credit is based on the taxpayer's Indiana qualified research expenses, rather than the lesser of its Indiana qualified research expenses or its apportioned research expenses for the tax year beginning January 1, 2004. Currently, only businesses that do not have income apportioned to the state for a taxable year may calculate their credit based on only Indiana research expenses.

This change would lower the tax liability for multi-state, Indiana-domiciled companies that conduct a significant proportion of their research in Indiana, compared to the research conducted through their non-Indiana operations. Elimination of the apportionment factor will allow all companies to compute their tax credit based on the amount of research actually conducted in the state. It is unknown how many Indiana businesses would be affected by this change.

Rate Change: The bill also increases the percentage of credit which may be taken for research and development activities from 5% to 10%.

With additional incentives created for research and development activity based in the state of Indiana, the revenue loss from this credit could increase by an indeterminable amount. The credit provides $100,000 for each $1 M in new research expenses. Increased expenditures on research activities could also generate additional Adjusted Gross Income and Sales Tax revenue if these expenses are used to hire additional employees or purchase related equipment.

Research expense tax credit affects revenue collections deposited in the General Fund.

Sales & Use Tax: This bill increases the Sales and Use Tax from 5% to 6% effective December 1, 2002. The bill also makes changes in the manner in which Sales and Use Tax revenue is distributed. The bill changes the distribution of the revenue so that revenue generated as a result of the tax increase is deposited into the Property Tax Replacement Fund.

The increase is expected to generate approximately $393.0 M in FY 2003, $806.4 M in FY 2004, and $827.4 M in FY 2005 in increased Sales Tax revenue. This estimate assumes that the Sales Tax revenue will grow 2.6% annually over FY 2003, FY 2004, and FY 2005. (This is the same rate forecast for FY 2002 by the Revenue Technical Committee on November 14, 2001.)

The bill also changes the distribution of Sales Tax revenue so that the funding levels of the Public Mass Transportation Fund, the Commuter Rail Service Fund, and the Industrial Rail Service Fund will remain at their current levels.

Taxation of Lottery Winnings: The bill scales back the Adjusted Gross Income (AGI) Tax exemption for winnings on Hoosier Lottery tickets. Under current law, all winnings on Hoosier Lottery tickets are exempt from AGI Tax. Under the bill, prize money exceeding $1,200 received from a single winning Hoosier Lottery ticket is taxable. This change is effective July 1, 2002. In addition, the bill requires that the AGI Tax due on taxable lottery prizes be withheld and remitted to the Department of Revenue even if federal withholding is not required. The change in the lottery winnings exemption is estimated to generate additional income tax revenue totaling about $3.9 M annually beginning in FY 2003. This estimate is based on the average of annual winnings totals for prizes of $1,200 or more awarded by the Hoosier Lottery from 1999 to 2001.

Withholding on Gambling Winnings: The bill requires riverboat casino owners to withhold and remit to the Department of Revenue (DOR) Adjusted Gross Income (AGI) Tax on gambling winnings of: (1) $1,200 or more from a slot machine play or (2) $1,500 or more from a keno game. The withholding threshold for keno game winnings is the net winnings reduced by the wager. This change is effective July 1, 2002. The bill requires withholding even if federal tax withholding is not required. The bill requires payment of withholdings on a next (business) day basis. This requirement is estimated to generate additional income tax revenue from nonresidents gambling at Indiana riverboats. The additional revenue is estimated to total about $15.0 M annually beginning in FY 2003. This estimate is based on (DOR) data from federal withholding statements for gambling winnings for resident and nonresident gamblers. The statements were filed by Indiana riverboats during 1999 and 2000 for gamblers winning at least $600. Almost all of the statements filed, however, reported winnings of $1,200 or more (only 192 out of 501,501 statements filed reported winnings of less than $1,200).

Riverboat Gaming: The bill permits a riverboat owner to commence flexible scheduling operations allowing for continuous boarding of riverboat patrons, if the owner submits an appropriate plan for flexible scheduling to the Indiana Gaming Commission. The change to flexible boarding is expected to increase both wagering and admissions on riverboats. The bill also makes changes to riverboat taxes and distributions of riverboat tax revenue and deposits additional riverboat tax revenue in the Property Tax Replacement Fund (PTRF). The impact of the bill on the PTRF is estimated to total $381.1 M in FY 2003, $407.1 M in FY 2004, and $434.1 M in FY 2005. This assumes that all riverboat casinos will implement flexible scheduling in FY 2003. The net impact of the bill on PTRF is outlined in the table below.

Revenue Source	FY 2003	FY 2004	FY 2005
Admission Tax	(38.0 M)	(36.2 M)	(34.4 M)
Shift of Base Wagering Tax Revenue from BIF to PTRF	128.7 M	128.7 M	128.7 M
New Wagering Tax Revenue to PTRF*	290.4 M	314.6 M	339.8 M
Net Additional Wagering Tax Revenue to PTRF*	381.1 M	407.1 M	434.1 M

*Net amount after subtraction of $33.0 M for Local Revenue Sharing.
**Net amount after replacement of Admission Tax reductions.

It is important to note that the bill replaces reductions in Admission Tax revenue to state agencies and local units receiving Admission Tax distributions up to the FY 2002 distribution level from Wagering Tax revenue deposited in the PTRF. This subtraction is reflected in the net amounts in the table. It is also important to note that the new wagering tax revenue total is a net amount after subtraction of $33 M for local revenue sharing.

Tax Distribution Caps: The bill caps existing state distributions from the Admission Tax and the Wagering Tax. Under the bill, the annual distribution of Wagering Tax revenue to the Build Indiana Fund (BIF) is capped at $250 M minus the annual amounts distributed to the BIF from Lottery surplus, charitable gaming fees/taxes, and pari-mutuel wagering taxes. These sources are estimated to total $102.5 M annually. Thus, Wagering Tax to the BIF is estimated to total $147.5 M annually under the cap. Under the bill, revenue in excess of the cap is to be distributed to the PTRF. This allows for a shift of approximately $128.7 M annually in Wagering Tax revenue from the BIF to the PTRF

All distributions of Admission Tax revenue to state agencies (the Horse Racing Commission, Division of Mental Health, and State Fair Commission) are capped at the FY 2002 distribution level. These distributions are estimated to total about $27.1 M to the Horse Racing Commission; $6.2 M to the State Fair Commission; and $4.2 M to the Division of Mental Health. It is important to note that the bill guarantees these distribution amounts. Under the bill, the expected reductions in Admission Tax revenue due to the change to a turnstile count basis for riverboats that implement flexible boarding are to be replaced by increased Wagering Tax revenue deposited in the PTRF.

Riverboat Admission Tax: Riverboats not implementing flexible scheduling will continue to pay the existing $3 Admission Tax in the same manner as under current law. Riverboats that implement flexible scheduling will pay the $3 Admission Tax only on the turnstile count of people entering the riverboat. Under current law, the Admission Tax is paid for each person embarking on a riverboat gaming excursion. An excursion can't exceed four hours in length; typically gaming excursions last two hours. Thus, if a person embarks on two 2-hour gaming excursions, the riverboat will pay $6 in Admission Tax for that person. Under the bill, a riverboat implementing flexible scheduling will pay a $3 Admission Tax only when the person is admitted to the riverboat no matter how long they remain on the riverboat. Effectively, this change will reduce the existing tax base by one-half for riverboats implementing flexible scheduling. If all riverboats implement flexible boarding, Admission Tax revenue could potentially fall below the amount needed for capped state and local distributions. This shortage is estimated to total $38.0 M in FY 2003, $36.2 M in FY 2004, and $34.4 M in FY 2005. It is important to note that the bill replaces reductions in Admission Tax revenue to state agencies receiving Admission Tax distributions up to the FY 2002 distribution level from Wagering Tax revenue deposited in the PTRF.

Wagering Tax: The bill increases the Wagering Tax on Riverboats not implementing flexible scheduling from 20% to 22.5%. For riverboats that implement flexible scheduling, the bill imposes a new graduated Wagering Tax on adjusted gross wagering receipts (AGR). The graduated tax structure is presented in the table below:

Taxable Increment of Annual AGR	Tax Rate on Increment
$25 M and under	15%
Over $25 M up to $50 M	20%
Over $50 M up to $75 M	25%
Over $75 M up to $150 M	30%
Over $150 M	35%

Provided that all riverboats implement flexible scheduling, the graduated Wagering Tax is expected to generate additional Wagering Tax revenue totaling $323.4 M in FY 2003, $347.6 M in FY 2004, and $372.8 M in FY 2005.

Certified Technology Parks: The bill allows a local redevelopment commission operating a certified technology park to capture up to $5 M over the life of the park in incremental revenue from the state income and sales taxes generated in the park (income tax revenue paid by employees working in the park and sales tax revenue paid by businesses in the park, in excess of the base amounts for each tax calculated before the establishment of the park).

Venture Capital Investment Tax Credit: This bill establishes a Venture Capital Investment Tax Credit for qualified venture capital investment after December 31, 2003. Thus, the credit will be effective beginning tax year 2004. Under the bill the credit can't be claimed for qualified investment made after December 31, 2008, and total tax credits claimed each year can not exceed $10 M. As a result, the bill could potentially reduce revenue from various state taxes by up to $5 M in FY 2004 and up to $10 M annually beginning in FY 2005. The FY 2004 estimate assumes that taxpayers will qualify for credits in the first half of FY 2004 and that the credit recipients will adjust quarterly estimated payments accordingly.

Under the bill, a taxpayer (individual or entity) would be entitled to a non-refundable tax credit equal to the lesser of (1) 20% of qualified investment capital provided to a qualified Indiana business during a calendar year or (2) $500,000. The bill defines *qualified investment capital* as debt or equity capital provided to a qualified Indiana business. The bill limits total tax credits claimed to $10 M per year. Annually, credits would be granted in the chronological order in which returns claiming the credit are filed until the $10 M limit is reached. The credit could be taken against a taxpayer's State Gross Retail and Use Tax, Adjusted Gross Income (AGI) Tax, Financial Institutions Tax, or Insurance Premiums Tax liability. If the amount of the credit exceeds the taxpayer's liability, the excess credit could be carried forward to subsequent years. A taxpayer would not be entitled to a carryback or a refund of any unused credit. If a pass through entity does not have a tax liability, the credit could be taken by shareholders, partners, or members in proportion to their distributive income from the pass through entity.

Assessed Value Deductions and Exemptions: The state levies a small tax rate for State Fair and State Forestry. The AV deductions and Exemptions contained in this bill will reduce the property tax revenue for these two funds.

Gasoline Tax Increase: The bill provides that the Gasoline Tax be increased from $0.15 to $0.18 per gallon. The table below shows the additional revenues resulting from the three cent per gallon increase.

FY	Total Increase	SHRCIF*	State Share SHF**	Local Share MVHA***
2003	$48.15M	$16.05 M	$16.05 M	$16.05 M
2004	$97.2M	$32.4 M	$32.4 M	$32.4 M
2005	$99.0 M	$33.0 M	$33.0 M	$33.0 M

* SHRCIF: State Highway Road Construction Improvement Fund
** SHF: State Highway Fund
*** MVHA: Motor Vehicle Highway Account.

The estimated additional revenue raised from each penny increase in the Gasoline Tax is provided in the table below.

CY	One Cent Raises:
2003	$32.1 M
2004	$32.7 M
2005	$33.3 M

Explanation of Local Expenditures:

Expenditure Limits: Distributions of state revenue to local units of government are dependent on the disposition of state appropriations.

Certified Technology Parks: After entering into the technology park agreement with the IDOC, a redevelopment commission must submit to the Department of State Revenue (DOR) certified copies of the IDOC designation of the technology park and the technology park agreement entered into with IDOC, as well as a complete list of the employers in the park and information on streets in the park. The DOR is then required to calculate the base amounts for income and sales taxes generated in the technology park.

If a redevelopment commission designates a certified technology park as a TIF area, it must publish notice of this action and of the public hearing on the subject and accept written remonstrances on this action. The bill also requires that the commission file information regarding the technology park with each taxing unit that levies property taxes in the park. If, after holding a public hearing, the redevelopment commission designates the TIF area, a person who submitted a written remonstrance may appeal the commission's decision to the circuit or superior court of the county.

Explanation of Local Revenues:

Homestead Credit Increase: The increase in Homestead Credits would not affect local revenues. Homeowners' property tax bills would be reduced by the additional credits, but the state would reimburse local taxing units for the lost revenue.

Local Option Income Tax Distributions: Under current law, counties that impose the County Option Income Tax (COIT) may provide a locally funded Homestead Credit up to an additional 8%. COIT revenue that is not used to fund the local Homestead Credit is distributed to civil taxing units (counties, townships, cities, towns, libraries, and special taxing units). A reduction in the net property tax levy would reduce the cost of providing the local Homestead Credit, thereby directing more COIT revenue to civil taxing units.

Personal Property Rules: The Department of Local Government Finance has promulgated new rules governing the assessment of business and utility personal property. These new rules along with their new valuation schedules went into effect for property assessed on the March 1, 2002, assessment date with taxes paid in CY 2003. On average, these rules would have raised business personal property assessments by 34.3% and reduced utility personal property assessments by 5%.

For the March 1, 2002, assessment date, this bill requires personal property to be assessed under the new rules, except that the 35% valuation adjustment for inventory and the valuation of construction in process at 10% of cost would both be reinstated.

Beginning with the March 1, 2003, assessment date, this bill would negate the new rules and require personal property to be assessed under the rules in place on January 1, 2001. The overall effect of using both the old business and old utility personal property rules would be a reduction of the expected AV base. This AV reduction would cause an increase in the property tax rates. These rates were also used in the estimates of the other provisions of the bill.

Production Inventory Property Tax Exemption / Inventory AV Elimination: Under this proposal, some inventory that is not finished goods would be exempt from property taxation beginning with taxes paid in 2004. The inventory would have to be used in the production of finished goods that would qualify for an interstate commerce exemption. The bill would also provide a 100% inventory deduction beginning with taxes paid in 2007.

The total exemption is estimated at $6.25 B AV for taxes paid in CY 2004, CY 2005, and CY 2006. The total exemption plus deduction is estimated at $17.1 B AV for taxes paid in 2007. The elimination of inventory AV would cause the property tax burden to shift from inventory property to all other types of property through an increased tax rate. This effect was considered in the estimates of all the other provisions in the bill.

Local Option Inventory Elimination / CEDIT Homestead Replacement: Under this bill, each county may adopt an ordinance that would provide a 100% inventory deduction for taxes paid in CY 2004, CY 2005, and CY 2006. Counties that elect to provide the deduction for 2004, 2005, and 2006 would be required by the bill to use County Economic Development Income Tax proceeds to pay for additional Homestead Credits in the county in order to mitigate any shift of the tax burden from inventory property to homestead property. The bill would allow the CEDIT rate cap and the COIT/CEDIT and CAGIT/CEDIT combined rate caps to be exceeded by 0.25% for this purpose. The maximum estimated shift of property tax from inventory property to homestead property is estimated at $175 M in CY 2004 assuming that all counties would provide the deduction.

In addition, counties that provide the deduction for 2004, 2005, and 2006 would have the option of continuing the imposition of CEDIT for 2007 and beyond in order to continue the additional homestead credits. Currently, 60 counties have adopted CEDIT.

Property Tax Replacement Credit: Total local revenues would not be affected by the change to PTRC. Taxpayers' property tax bills would be reduced by the additional credits, but the state would reimburse local taxing units for the lost revenue.

School General Fund Property Tax Levies: Gross school tax levies would not be affected by this proposal. Instead, the state would pay these credits from the PTRF. Since gross levies and gross rates are not affected, there would be no change in the distribution of miscellaneous revenues, including Excise Tax, Financial Institutions Tax, and local property tax relief credits from CAGIT proceeds.

Shelter Allowance / Standard Deduction: Under the new real property assessment rule recently promulgated by the DLGF, homeowners would receive a shelter allowance against the assessment of their principal residence. These allowances vary by county, ranging from $16,000 to $22,700 and averaging $19,000. Under this proposal, the shelter allowance would be replaced by a $29,000 increase in the standard deduction. This deduction would change from $6,000 to $35,000. The amount of the deduction that exceeds the shelter allowance ($10,000) would cause some of the property tax burden to shift from residential property to all other types of property through an increased tax rate. This effect was considered in the estimates of all the other provisions in the bill.

Maximum Levy Increases: Under current law, a civil taxing unit's maximum permissible levy increases at the rate of the unit's AV growth with a 5% minimum and a 10% maximum. This is the unit's assessed value growth quotient, or AVGQ. The bill would allow maximum levies to increase by the 6-year average annual growth in Indiana personal income (IPI) , as calculated by the U.S. Bureau of Economic Analysis, with a 6% maximum. The change in IPI over the last six years (1995-2000) has averaged about 5.06% which is virtually the same as the current minimum 5% change. For those units with an AVGQ greater than 5% (479 of 2,122), the average CY 2002 growth rate was 8.8%. Many of these units could qualify to seek an increase in their maximum levy through the appeal process described below.

Under current law, a civil unit may appeal to the state's Local Government Tax Control Board for an increase in its maximum levy if the unit's AVGQ is greater than 1.1. The Control Board considers the appeal and sets the increase based on the merits of the appeal. The maximum levy increase may not exceed the unit's AVGQ. This bill would also allow an appeal. A unit could appeal if it's AVGQ exceeds the statewide average AVGQ by at least 3%. The Control Board would still consider the appeal on its merits, but it would not be limited in setting the maximum levy.

This new maximum levy formula will simplify maximum levy calculations beginning in 2006, when annual assessment adjustments are scheduled to begin. Overall, this provision would not have much impact on civil unit maximum levies unless income levels fall. School Transportation funds are expected to realize a slight levy reduction of about $2.3 M in CY 2003, $4.9 M in CY 2004, and $7.8 M in CY 2005.

Tax Increment Financing: Tax increment financing (TIF) allocations are equal to the incremental assessed value in a TIF area multiplied by the surrounding taxing district's tax rate. Since the gross property tax rate will not be reduced by the credits in the bill, TIF districts' gross property tax receipts would not be adversely affected by the proposal. However, the net proceeds (after locally paid credits) in those districts that opt to pay PTRC-like credits would be reduced. In CY 2001, school general fund tax rates generated $39.4 M in TIF revenues. The net TIF revenue loss under this proposal would approximate that amount if all TIF districts pay locally funded PTRC-like credits.

This bill would impose a tax on property within the taxing district that contains the TIF district to raise the amount of net TIF revenue that would be lost due to the school general fund replacement credits in this bill. The body that created the TIF district may reduce or eliminate this additional levy.

In taxing districts where the TIF area comprises more than 10% of the total valuation, the special assessment would be limited to the lesser of the net revenue loss or the proceeds from a 10% tax rate increase. These districts may also appeal to the DLGF for a distribution from the Property Tax Relief Fund if the maximum special assessment is insufficient to make up the net revenue loss. If the DLGF denies the distribution, then the special assessment may exceed the above 10% tax rate limitation.

Renter's Deduction: The bill increases the renter's deduction for purposes of the Adjusted Gross Income Tax beginning in tax year 2003. Because these changes will decrease Indiana taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result of the bill, experience an indeterminable decrease in revenue from these taxes.

Lottery Winnings Exemption: The bill scales back the Adjusted Gross Income Tax exemption for winnings on Hoosier Lottery tickets effective July 1, 2002. Because these changes will increase Indiana taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable increase in revenue from these taxes.

Certified Technology Parks: The bill allows a local redevelopment commission to establish a certified technology park encompassing all or part of the territory under the commission's jurisdiction. The bill allows a redevelopment commission operating a certified technology park to designate the park as a TIF district. This would allow the commission to capture incremental property tax revenue generated from taxable property in the park (revenue from assessed property valuation in excess of the base assessed value calculated before the establishment of the park). The bill also allows a redevelopment commission operating a technology park to capture up to $5 M <u>over the life of the park</u> in incremental income and sales tax revenue generated in the park. This would include revenue from local option income taxes (CAGIT, COIT, and/or CEDIT). The bill does not specify a capture limit for incremental property tax revenue. However, if the redevelopment commission determines that incremental property tax revenue in a year will exceed the amount necessary to pay the costs of the technology park, the excess incremental tax revenue may be allocated to local units. The bill permits the redevelopment commission to pay a property tax replacement credit against the property tax in the "tiffed" property. This credit would reduce the amount of TIF proceeds received by the commission.

Riverboat Tax Distribution Caps: The bill caps all existing distributions of Admission Tax revenue and Wagering Tax revenue to local units at the FY 2002 level. The Admission Tax cap for local units is estimated to total about $87.5 M annually. The Wagering Tax cap for local units is estimated to total $92.1 M annually. It is important to note that the bill replaces reductions in Admission Tax revenue to local units receiving Admission Tax distributions up to the FY 2002 distribution level from Wagering Tax revenue deposited in the PTRF. Under the bill, the expected reductions in Admission Tax revenue due to the change to a turnstile count basis for riverboats that implement flexible boarding are to be replaced by increased Wagering Tax revenue deposited in the PTRF.

Local Wagering Tax Revenue Sharing: The bill earmarks $33.0 M annually from Wagering Tax revenue in the PTRF for local revenue sharing. This amount is to be distributed to all counties that don't have a riverboat casino based on population. The bill requires each county's total to be divided between the county, and the cities and towns within the county, based on population.

Gasoline Tax Increase: See table in *Explanation of State Revenues*.

State Agencies Affected: Auditor; Department of Education; Department of State Revenue; State Budget Agency; Department of Local Government Finance (State Tax Board); Treasurer; Department of Workforce Development; Indiana Department of Commerce.

Local Agencies Affected: School corporations; Local taxing units; Counties with a local option income tax; Local redevelopment commissions; TIF districts; County auditors.

Information Sources: Department of State Revenue; Department of Education; State Tax Board (Department of Local Government Finance), State Police, Department of Environmental Management; Revenue Technical Committee's November 14, 2001, Revenue Forecast; Property Tax Analysis, various years, Local Government Database- State Board of Tax Commissioners (Department of Local Government Finance); School Finance Database; Dan Bastin, Auditor of State's Office; National Science Foundation, *Survey of Industry Research and Development;* Statistical Abstract, 2000, U.S. Bureau of the Census; U.S. Bureau of Labor Statistics, *1995 Survey of Employer-Provided Training: Employer Results*, July 10, 1996; Amy Brown, Legislative Director for the Family and Social Services Administration, Allison Becker, FSSA Division of Disability, Aging, and Rehabilitative Services; Wes Bruce, Department of Education.

EXHIBIT 2

STATE OF INDIANA

GENERAL FUND
PROPERTY TAX REPLACEMENT FUND
AND
RAINY DAY FUND

SUMMARIES

FISCAL YEAR ENDING
JUNE 30, 2002

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State of Indiana

General Fund
Property Tax Replacement Fund
And
Rainy Day Fund
Summaries

Fiscal Year Ending
June 30, 2002

Indiana State Budget Agency
July 11, 2002

State of Indiana

General Fund, Property Tax Replacement Fund, and Rainy Day Fund
Fiscal Year Ending June 30, 2002

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GENERAL FUND and PROPERTY TAX REPLACEMENT FUND
COMBINED STATEMENT of ACTUAL and ESTIMATED UNAPPROPRIATED RESERVE
(Millions of Dollars)

	Actual FY 2002	Estimated FY 2003
Resources:		
Working Balance at July 1	18.6	0.0
Current Year Resources		
Forecast Revenue	8,708.9	9,249.5
DSH	87.0	65.0
HEA 1001 (ss) - 2002	-	1,001.6
Other Revenue Sources or Transfers In		
Transfer from Lottery and Gaming Surplus Account (BIF)	200.0	175.0
Transfer from Medicaid Reserve to General Fund	100.0	-
2002 Regular Session of the General Assembly	-	(17.7)
Transfer from Dedicated Fund Balances per Board of Finance	396.3	45.2
Increase in Administrative Fees	-	4.0
Transfer From (To) Rainy Day Fund	277.1	-
Total Current Year Resources	9,769.3	10,522.6
Total Resources:	9,787.9	10,522.6
Uses: Appropriations, Expenditures, and Reversions:		
Appropriations		
Budgeted Appropriations	10,211.9	10,497.8
Adjustments to Appropriations (1)	93.1	-
Deficiency Appropriations	0.1	-
2002 Regular Session of the General Assembly	-	1.7
HEA 1001 (ss) - 2002	-	441.9
Higher Education HEA 1196 - 2002	-	(29.0)
K-12 Education HEA 1196 - 2002	-	(119.1)
Total Appropriations	10,305.1	10,793.3
Other Expenditures and Transfers		
Judgments and Settlements (2)	3.8	250.3
Total Appropriations & Expenditures	10,308.9	11,043.6
Payment Delays		
Higher Education Allotment	(94.2)	-
Tuition Support Distribution	(279.5)	(18.2)
Property Tax Replacement Credit	-	(157.7)
Reversions	(145.1)	(420.6)
Total Net Uses:	9,790.1	10,447.1
Auditor's Adjustment	(2.2)	
General Fund Reserve Balance at June 30	0.0	75.5
Reserved Balances:		
Medicaid Reserve	-	-
Tuition Reserve	265.0	265.0
Rainy Day Fund (3)	269.2	278.6
Total Combined Balances	534.2	619.1
Payment Delay Liability	(373.8)	(549.7)
Combined Balance as a Percent of Operating Revenue	6.1%	6.0%

Totals may not add due to rounding

STATE GENERAL FUND
STATEMENT of ACTUAL and ESTIMATED UNAPPROPRIATED RESERVE
(Millions of Dollars)

	Actual FY 2002	Estimated FY 2003
Resources:		
Working Balance at July 1	18.6	0.0
Current Year Resources		
Forecast Revenue	7,096.9	7,582.2
DSH	87.0	65.0
HEA 1001 (ss) - 2002	-	(163.1)
Other Revenue Sources or Transfers In		
Transfer from Medicaid Reserve to General Fund	100.0	-
2002 Regular Session of the General Assembly	-	(17.7)
Transfer from Dedicated Fund Balances	396.3	45.2
Increase in Administrative Fees	-	4.0
Transfer From (To) Rainy Day Fund	233.7	-
Total Current Year Resources	7,913.9	7,515.6
Total Resources:	7,932.5	7,515.6
Uses: Appropriations, Expenditures, and Reversions:		
Appropriations		
Budgeted Appropriations	7,566.7	7,817.7
Adjustments to Appropriations (1)	101.6	-
Deficiency Appropriations	0.1	-
2002 Regular Session of the General Assembly	-	1.7
HEA 1001 (ss) - 2002	-	18.2
Higher Education HEA 1196 - 2002	-	(29.0)
K-12 Education HEA 1196 - 2002	-	(67.8)
Total Appropriations	7,668.4	7,740.8
Other Expenditures and Transfers		
Property Tax Replacement Fund Transfer	661.5	(120.1)
Judgments and Settlements (2)	3.8	250.3
Total Appropriations & Expenditures	8,333.7	7,871.0
Payment Delays		
Higher Education Allotment	(94.2)	-
Tuition Support Distribution	(159.7)	(10.4)
Reversions	(145.1)	(420.6)
Total Net Uses:	7,934.7	7,440.1
Auditor's Adjustment	(2.2)	
General Fund Reserve Balance at June 30	0.0	75.5

Totals may not add due to rounding

PROPERTY TAX REPLACEMENT FUND
STATEMENT of REVENUES and EXPENDITURES
(Millions of Dollars)

	Actual FY 2002	Estimated FY 2003
Sources:		
Revenue		
Forecast Revenue	1,612.0	1,667.3
HEA 1001 (ss) - 2002	-	1,164.7
Total Revenue	1,612.0	2,832.0
Transfers		
Transfer from Rainy Day Fund	43.4	-
Transfer from Lottery and Gaming Surplus Account (BIF)	200.0	175.0
Transfer From (To) General Fund	661.5	(120.1)
Total Transfers	904.9	54.9
Total Sources:	2,516.9	2,886.9
Uses:		
Tuition Support Appropriation	1,465.4	1,523.1
K-12 Education	-	(51.3)
HEA 1001 (ss) - 2002	-	527.7
Property Tax Replacement Distribution		
PTRC and Homestead Credit	1,179.8	1,157.0
HEA 1001 (ss) - 2002	-	(104.0)
Personal Property Tax Adjustment	-	-
Property Tax Replacement Credit Payment Delay	-	(157.7)
Tuition Support Payment Delay	(119.9)	(7.8)
Adjustment to Actual Distributions	(8.5)	-
Total Uses:	2,516.9	2,886.9
Ending Balance at June 30	0.0	0.0

Totals may not add due to rounding

Footnotes to the Statements of Estimated Unappropriated Reserve
(Combined Statement, General Fund Statement, Property Tax Replacement Fund Statement)

1. Adjustments to appropriations by augmentation, transfer, and open-ended appropriations and other reconciling adjustments made as part of the closing process are shown in total. Also includes $66.3 million of unposted transfers to the State General Fund for state operated facilities.

2. Represents Tort Claims and Settlements and the Budget Agency's best estimate – at this time – of the cost to the General Fund for Medicaid expenditures that will be incurred by the State in Fiscal Year 2003 resulting from the Indiana Supreme Court decision in the case *Humphreys v. Day.*

3. Includes loans of $12,241,652 to City of Terre Haute, City of Beech Grove, Beech Grove Schools. City of East Chicago, City of East Chicago Sanitation District, East Chicago Schools and East Chicago Libraries

RAINY DAY FUND
(Counter-Cyclical Revenue and Economic Stabilization Fund)
IC 4-10-18
(Millions of Dollars)

	Actual FY 2002	Estimated FY 2003
Resources:		
Balance at July 1	526.0	269.2
Interest Earned During Fiscal Year (1)	20.3	9.4
Transfer from GF Revenue per Formula	-	-
Total Resources:	546.3	278.6
Uses:		
Transfer to GF - Budget Stabilization	233.7	-
Transfer Excess Balance to PTRF (2)	43.4	-
Preliminary Fund Balance at June 30	269.2	278.6
Transfer to GF - Maintain Level Fund Balance	-	-
Fund Balance at June 30 (3)	269.2	278.6
Total Uses:	546.3	278.6
Maximum Fund Balance (4)	502.9	535.3

Notes:

(1) Earned interest is interest reported by the State Treasurer for the fiscal year on investment and includes the payment of interest on loans made from the fund.

(2) Transfers made pursuant to IC 4-10-18-33.

(3) Includes loans of $12,241,652 to City of Beech Grove, Beech Grove Schools, City of East Chicago, City of East Chicago Sanitation District, East Chicago Schools and East Chicago Libraries.

(4) The maximum allowable fund balance equals 7% of fiscal year General Fund (excluding PTRF) revenues.

Totals may not add due to rounding

GENERAL FUND AND PROPERTY TAX REPLACEMENT FUND
FY 2002 REPORT OF MONTHLY REVENUE COLLECTIONS
TARGETS PER NOVEMBER 14, 2001 FORECAST
(IN MILLIONS OF DOLLARS)

		JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	Y-T-D
SALES	ACTUAL	$321.4	$311.9	$319.8	$316.3	$319.4	$306.6	$359.7	$288.1	$285.5	$302.8	$316.5	$313.6	$3,761.4
	TARGET	$326.1	$311.0	$308.9	$313.3	$300.7	$310.5	$377.4	$289.2	$310.2	$305.1	$307.6	$331.5	$3,791.4
	DIFFERENCE	- $4.7	$0.8	$10.9	$2.9	$18.8	- $3.9	- $17.8	- $1.0	- $24.7	- $2.3	$8.9	- $17.9	- $30.0
INDIVIDUAL	ACTUAL	$271.5	$216.5	$372.2	$255.6	$229.0	$286.2	$443.0	$143.8	$206.9	$485.4	$276.6	$354.1	$3,540.8
	TARGET	$299.3	$234.9	$366.9	$276.4	$233.9	$242.0	$488.6	$140.3	$219.4	$526.1	$367.5	$336.3	$3,731.6
	DIFFERENCE	- $27.8	- $18.4	$5.3	- $20.8	- $4.9	$44.2	- $45.5	$3.5	- $12.5	- $40.7	- $90.9	$17.8	- $190.8
CORPORATE	ACTUAL	$18.0	- $3.6	$175.4	$53.4	$6.3	$104.8	$33.7	- $5.9	$16.4	$127.9	$21.2	$161.8	$709.4
	TARGET	$33.0	$7.9	$150.8	$49.9	$19.4	$112.4	$38.4	$13.3	$33.3	$179.1	$42.6	$149.9	$830.0
	DIFFERENCE	- $15.0	- $11.5	$24.6	$3.5	- $13.1	- $7.6	- $4.6	- $19.2	- $16.9	- $51.3	- $21.4	$11.9	- $120.6
TOTAL BIG 3	ACTUAL	$610.8	$524.8	$867.4	$625.3	$554.7	$697.5	$836.4	$426.1	$508.8	$916.0	$614.3	$829.5	$8,011.6
	TARGET	$658.3	$553.9	$826.6	$639.6	$553.9	$665.0	$904.3	$442.8	$562.9	$1,010.3	$717.6	$817.7	$8,353.0
	DIFFERENCE	- $47.5	- $29.1	$40.8	- $14.3	$0.8	$32.6	- $67.9	- $16.8	- $54.1	- $94.3	- $103.3	$11.7	- $341.4
OTHER	ACTUAL	$69.5	$47.7	$57.8	$44.9	$42.9	$46.9	$124.1	$36.8	$45.3	$91.8	$26.9	$62.5	$697.2
	TARGET	$62.2	$28.8	$56.3	$58.4	$27.8	$69.5	$73.9	$30.7	$45.3	$84.0	$33.7	$82.0	$652.5
	DIFFERENCE	$7.3	$18.9	$1.6	- $13.5	$15.1	- $22.6	$50.3	$6.1	$0.0	$7.8	- $6.7	- $19.6	$44.7
TOTAL GF & PTRF	ACTUAL	$680.4	$572.5	$925.2	$670.2	$597.6	$744.4	$960.5	$462.9	$554.1	$1,007.8	$641.2	$891.9	$8,708.8
	TARGET	$720.5	$582.6	$882.8	$698.1	$581.7	$734.5	$978.2	$473.5	$608.1	$1,094.3	$751.3	$899.8	$9,005.5
	DIFFERENCE	- $40.2	- $10.2	$42.4	- $27.9	$15.9	$10.0	- $17.7	- $10.6	- $54.0	- $86.5	- $110.1	- $7.8	- $296.7

Totals may not add due to rounding

FY 2002 REPORT OF MONTHLY REVENUE COLLECTIONS
TARGETS PER NOVEMBER 14, 2001 FORECAST
(IN MILLIONS OF DOLLARS)

		JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	Y-T-D
GENERAL FUND														
SALES	ACTUAL	$193.3	$186.1	$190.6	$188.5	$188.6	$183.3	$209.6	$173.3	$168.1	$180.7	$186.6	$183.9	$2,232.6
	TARGET	$197.3	$184.6	$184.4	$186.9	$178.2	$184.6	$224.7	$172.5	$186.3	$180.8	$183.2	$196.6	$2,260.0
	DIFFERENCE	- $4.0	$1.5	$6.2	$1.6	$10.4	- $1.3	- $15.0	$0.8	- $18.1	- $0.1	$3.4	- $12.7	- $27.4
INDIVIDUAL	ACTUAL	$271.5	$216.5	$372.2	$255.6	$229.0	$286.2	$443.0	$143.8	$206.9	$485.4	$276.6	$354.1	$3,540.8
	TARGET	$299.3	$234.9	$366.9	$276.4	$233.9	$242.0	$488.6	$140.3	$219.4	$526.1	$367.5	$336.3	$3,731.6
	DIFFERENCE	- $27.8	- $18.4	$5.3	- $20.8	- $4.9	$44.2	- $45.5	$3.5	- $12.5	- $40.7	- $90.9	$17.8	- $190.8
CORPORATE	ACTUAL	$12.3	- $10.7	$172.0	$47.8	- $2.8	$95.0	$24.9	- $11.6	$8.5	$119.9	$13.7	$157.3	$626.3
	TARGET	$33.0	$4.8	$141.5	$42.4	$15.6	$104.7	$31.5	$3.9	$19.3	$166.0	$35.5	$138.0	$736.0
	DIFFERENCE	- $20.7	- $15.5	$30.5	$5.5	- $18.4	- $9.7	- $6.6	- $15.5	- $10.8	- $46.0	- $21.7	$19.3	- $109.7
TOTAL BIG 3	ACTUAL	$477.0	$391.9	$734.8	$492.0	$414.9	$564.5	$677.5	$305.5	$383.5	$786.0	$476.9	$695.3	$6,399.7
	TARGET	$529.5	$424.3	$692.8	$505.7	$427.7	$531.3	$744.7	$316.6	$424.9	$872.9	$586.1	$670.9	$6,727.6
	DIFFERENCE	- $52.5	- $32.4	$42.0	- $13.7	- $12.8	$33.2	- $67.2	- $11.2	- $41.5	- $86.9	- $109.2	$24.3	- $327.9
OTHER	ACTUAL	$69.5	$47.7	$57.8	$44.9	$42.9	$46.9	$124.1	$36.8	$45.3	$91.8	$26.9	$62.5	$697.2
	TARGET	$62.2	$28.8	$56.3	$58.4	$27.8	$69.5	$73.9	$30.7	$45.3	$84.0	$33.7	$82.0	$652.5
	DIFFERENCE	$7.3	$18.9	$1.6	- $13.5	$15.1	- $22.6	$50.3	$6.1	$0.0	$7.8	- $6.7	- $19.6	$44.7
TOTAL GF	ACTUAL	$546.5	$439.5	$792.6	$536.9	$457.8	$611.4	$801.6	$342.3	$428.8	$877.8	$503.9	$757.7	$7,096.9
	TARGET	$591.7	$453.0	$749.1	$564.2	$455.5	$600.8	$818.6	$347.3	$470.2	$956.9	$619.8	$753.0	$7,380.1
	DIFFERENCE	- $45.2	- $13.5	$43.6	- $27.3	$2.3	$10.5	- $17.0	- $5.0	- $41.4	- $79.1	- $115.9	$4.8	- $283.2
PTRF														
SALES	ACTUAL	$128.1	$125.8	$129.2	$127.7	$130.8	$123.3	$150.1	$114.9	$117.4	$122.1	$129.9	$129.7	$1,528.8
	TARGET	$128.8	$126.5	$124.4	$126.4	$122.4	$125.9	$152.8	$116.7	$123.9	$124.3	$124.4	$134.9	$1,531.4
	DIFFERENCE	- $0.7	- $0.7	$4.8	$1.3	$8.4	- $2.6	- $2.7	- $1.8	- $6.5	- $2.2	$5.5	- $5.2	- $2.6
CORPORATE	ACTUAL	$5.7	$7.2	$3.4	$5.6	$9.0	$9.8	$8.8	$5.7	$7.9	$7.9	$7.5	$4.5	$83.1
	TARGET	$0.0	$3.1	$9.3	$7.5	$3.8	$7.7	$6.8	$9.5	$14.0	$13.2	$7.1	$11.9	$94.0
	DIFFERENCE	$5.7	$4.0	- $5.9	- $1.9	$5.2	$2.0	$2.0	- $3.8	- $6.1	- $5.2	$0.4	- $7.4	- $10.9
TOTAL PTRF	ACTUAL	$133.8	$132.9	$132.6	$133.3	$139.8	$133.1	$158.9	$120.6	$125.3	$130.0	$137.4	$134.2	$1,612.0
	TARGET	$128.8	$129.6	$133.8	$133.9	$126.2	$133.6	$159.6	$126.2	$137.9	$137.5	$131.5	$146.8	$1,625.4
	DIFFERENCE	$5.0	$3.3	- $1.2	- $0.6	$13.6	- $0.6	- $0.7	- $5.6	- $12.6	- $7.4	$5.9	- $12.6	- $13.4
TOTAL GF & PTRF	ACTUAL	$680.4	$572.5	$925.2	$670.2	$597.6	$744.4	$960.5	$462.9	$554.1	$1,007.8	$641.2	$891.9	$8,708.8
	TARGET	$720.5	$582.6	$882.8	$698.1	$581.7	$734.5	$978.2	$473.5	$608.1	$1,094.3	$751.3	$899.8	$9,005.5
	DIFFERENCE	- $40.2	- $10.2	$42.4	- $27.9	$15.9	$10.0	- $17.7	- $10.6	- $54.0	- $86.5	- $110.1	- $7.8	- $296.7

Totals may not add due to rounding

END OF YEAR REVENUE REPORT
June 30, 2002
PER NOVEMBER 14, 2001 FORECAST

INDIANA STATE BUDGET AGENCY

	ACTUAL REVENUE PRIOR Y-T-D	ACTUAL REVENUE CURRENT Y-T-D	CHANGE		FORECAST REVENUE CURRENT Y-T-D	ACTUAL REVENUE CURRENT Y-T-D	DIFFERENCE	
			AMOUNT	PERCENT			AMOUNT	PERCENT
SALES TAX	$3,686.8	$3,761.4	$74.6	2.0%	$3,791.4	$3,761.4	-$30.0	-0.8%
INDIVIDUAL	$3,779.8	$3,540.8	-$239.0	-6.3%	$3,731.6	$3,540.8	-$190.8	-5.1%
CORPORATE	$855.3	$709.4	-$145.9	-17.1%	$830.0	$709.4	-$120.6	-14.5%
TOTAL BIG 3	$8,321.9	$8,011.6	-$310.3	-3.7%	$8,353.0	$8,011.6	-$341.4	-4.1%
OTHER	$730.1	$697.2	-$32.9	-4.5%	$652.5	$697.2	$44.7	6.8%
TOTAL	$9,052.0	$8,708.8	-$343.2	-3.8%	$9,005.5	$8,708.8	-$296.7	-3.3%

Totals may not add due to rounding

END OF YEAR REVENUE REPORT
June 30, 2002
PER NOVEMBER 14, 2001 FORECAST

INDIANA STATE BUDGET AGENCY

	FORECAST REVENUE CURRENT YEAR	ACTUAL REVENUE CURRENT Y-T-D	PERCENT OF FISCAL YEAR FORECAST
SALES TAX	$3,791.4	$3,761.4	99.2%
INDIVIDUAL	$3,731.6	$3,540.8	94.9%
CORPORATE	$830.0	$709.4	85.5%
TOTAL BIG 3	$8,353.0	$8,011.6	95.9%
OTHER	$652.5	$697.2	106.8%
TOTAL	$9,005.5	$8,708.8	96.7%

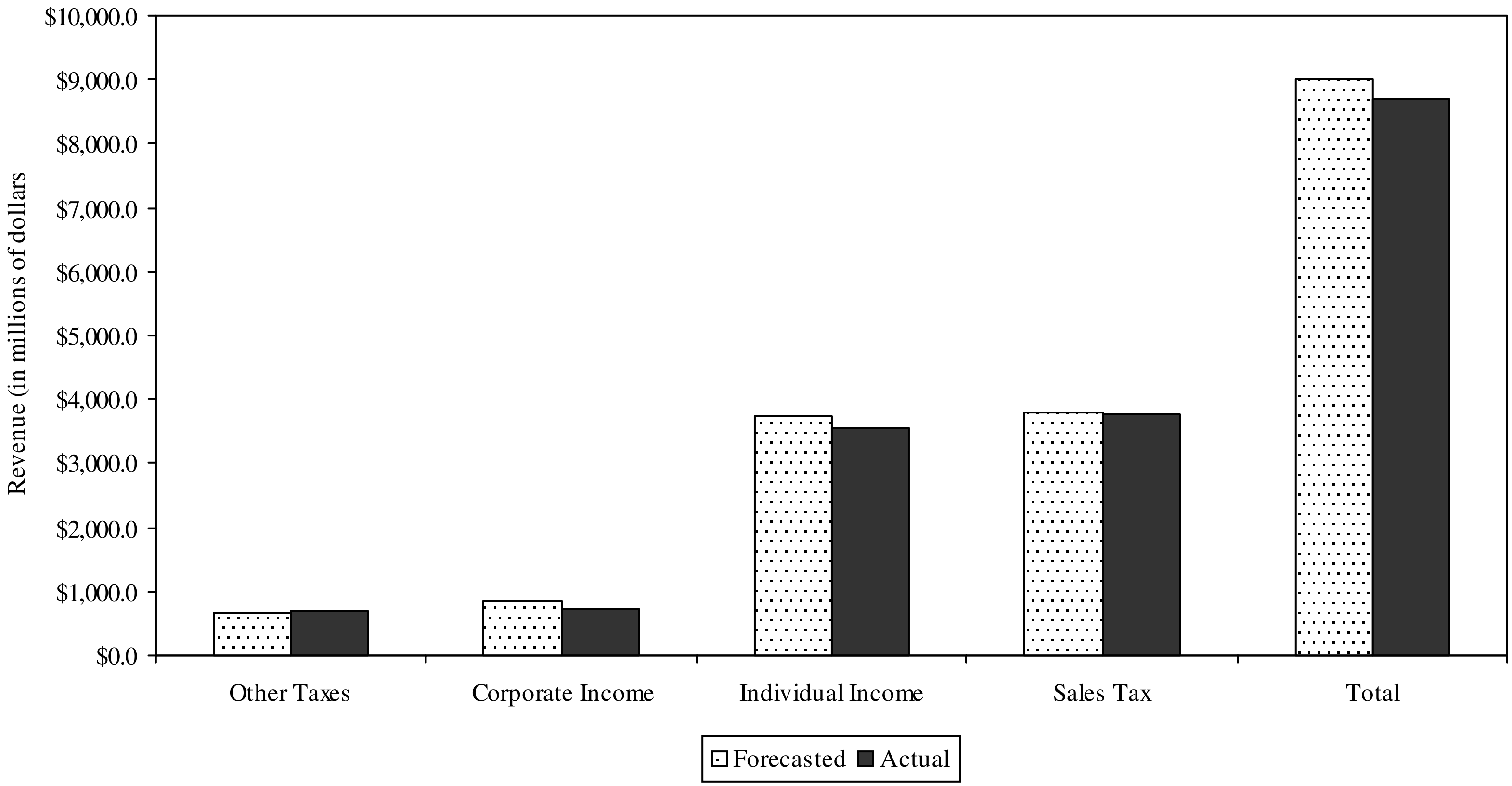
END OF YEAR REVENUE REPORT
June 30, 2002
PER NOVEMBER 14, 2001 FORECAST

INDIANA STATE BUDGET AGENCY

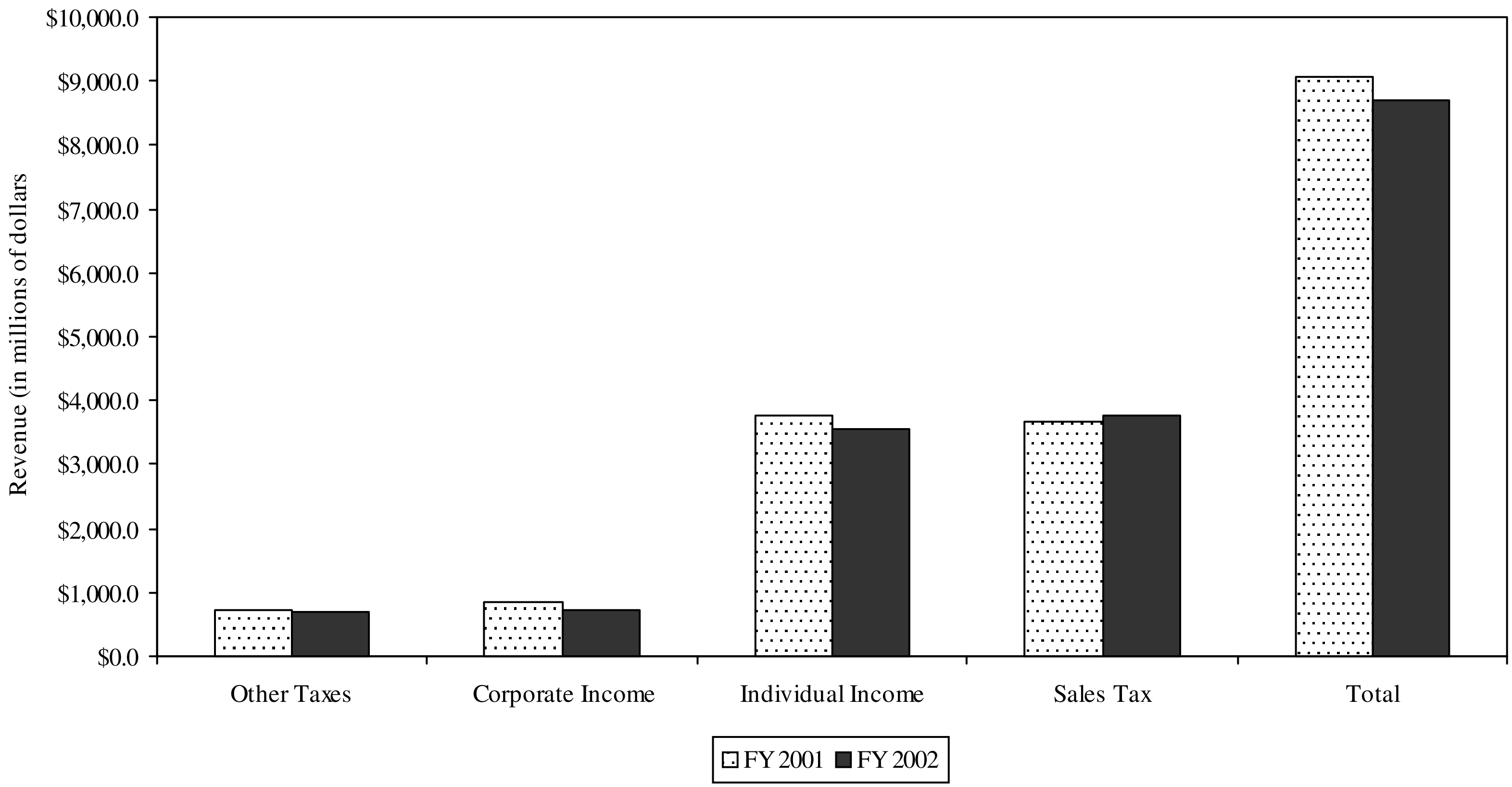
	ACTUAL REVENUE PRIOR Y-T-D	ACTUAL REVENUE CURRENT Y-T-D	CHANGE		FORECAST REVENUE CURRENT Y-T-D	ACTUAL REVENUE CURRENT Y-T-D	DIFFERENCE	
			AMOUNT	PERCENT			AMOUNT	PERCENT
CIGARETTE	$54.0	$55.0	$1.0	1.9%	$54.8	$55.0	$0.2	0.4%
AB TAXES	$13.1	$14.0	$0.9	6.7%	$13.2	$14.0	$0.8	6.1%
INHERITANCE	$163.7	$141.9	-$21.8	-13.3%	$145.0	$141.9	-$3.1	-2.1%
INSURANCE	$145.8	$176.2	$30.4	20.9%	$144.5	$176.2	$31.7	21.9%
INTEREST	$141.0	$72.2	-$68.8	-48.8%	$90.0	$72.2	-$17.8	-19.7%
MISC. REVENUE	$212.5	$237.9	$25.4	11.9%	$205.0	$237.9	$32.9	16.0%
TOTAL OTHER	$730.1	$697.2	-$32.9	-4.5%	$652.5	$697.2	$44.7	6.8%

Totals may not add due to rounding

INDIANA STATE REVENUES
FISCAL YEAR 2002 TOTALS
(Comparison of FY 2002 Forecasted Revenues and FY 2002 Actual Revenues)



INDIANA STATE REVENUES
FISCAL YEAR 2002 TOTALS
(Comparison of FY 2001 and FY 2002 Totals)



GENERAL FUND REVERSIONS SUMMARY

Fiscal Year 2001-2002

Agency Number	Agency Name	Total Reversions
3	House of Representatives	628,630
4	Senate	442,462
15	Indiana Lobby Registration Commission	36,627
17	Legislative Services Agency	732,341
19	Commission on Uniform State Laws	2,800
22	Supreme Court	3,588,542
23	Court of Appeals	574,995
24	Clerk of the Supreme and Appeals Courts	29,329
26	Indiana Judicial Center	1,078,799
28	Indiana Tax Court	37,797
30	Governor	472,272
32	Criminal Justice Institute	400,870
34	Washington Liaison Office	567
38	Lieutenant Governor	328,591
39	Prosecuting Attorneys' Council	100,451
40	Secretary of State	175,897
46	Attorney General	3,865
48	Treasurer of State	163,279
50	Auditor of State	419,069
57	Budget Agency	983,843
61	Department of Administration	2,050,674
62	Public Records Commission	291,978
63	Indiana Election Commission	56,979
64	Public Access Counselor	18,220
70	State Personnel Department	1,158,662
74	Employee Appeals Commission	16,662
75	State Ethics Commission	36,992
80	Board of Accounts	1,106,685
85	Information Technology Oversight Commission	180,979
90	Department of Revenue	3,893,225
100	Indiana State Police	8,168,288
103	Law Enforcement Training Board	337,381
110	Adjutant General	895,514
160	Department of Veterans' Affairs	172,817
190	Indiana Gaming Commission	6,217
200	Utility Regulatory Commission	4,887
210	Department of Insurance	421,884
215	Department of Local Government Finance	811,592
217	Indiana Board of Tax Review	233,065
220	Workers' Compensation Board	142,536
225	Department of Labor	469,510
230	Alcoholic Beverage Commission	1,813,241
245	Professional Standards Board	1,508,127
250	Professional Licensing Agency	292,014
258	Civil Rights Commission	271,123

Agency Number	Agency Name	Total Reversions
260	Department of Commerce	4,007,495
265	Indiana Horse Racing Commission	365,797
275	Health Professions Bureau	86,758
290	Clean Manufacturing Technology Board	33,250
300	Department of Natural Resources	9,089,356
310	White River Park Commission	170,043
315	World War Memorials Commission	161,315
330	St. Joseph River Basin Commission	5,271
351	Board of Animal Health	438,580
385	Emergency Management Agency	428,218
400	Department of Health	7,972,593
405	Family and Social Services Administration	39,532,255
495	Department of Environmental Management	5,068,905
496	Office of Environmental Adjudication	72,124
505	Education Employment Relations Board	229,267
510	Department of Workforce Development	2,488,612
605	Public Defender	669,825
610	Public Defender Council	169,509
615	Department of Correction	15,836,661
700	Department of Education	290,741,381
703	Indiana Commission on Proprietary Education	72,922
705	Fine Arts Commission	294,765
710	Ivy Tech State College	8,662,914
715	State Student Assistance Commission	500,509
719	Commission for Higher Education	188,300
720	Indiana Commission on Community Service	27,980
730	State Library	491,127
735	Historical Bureau	63,789
750	Indiana University	40,700,476
755	Medical Education Board	201,562
760	Purdue University	31,520,824
770	Indiana State University	6,453,608
775	University of Southern Indiana	2,646,285
780	Ball State University	10,308,136
790	Vincennes University	2,612,624
800	Department of Transportation	39,365
	Other Accounts	1,904,074
	GRAND TOTALS - Current Year	517,351,325
	- Prior Year	1,465,422
	GRAND TOTAL	518,816,747

Indiana Medicaid Reserve Account

June 30, 2002

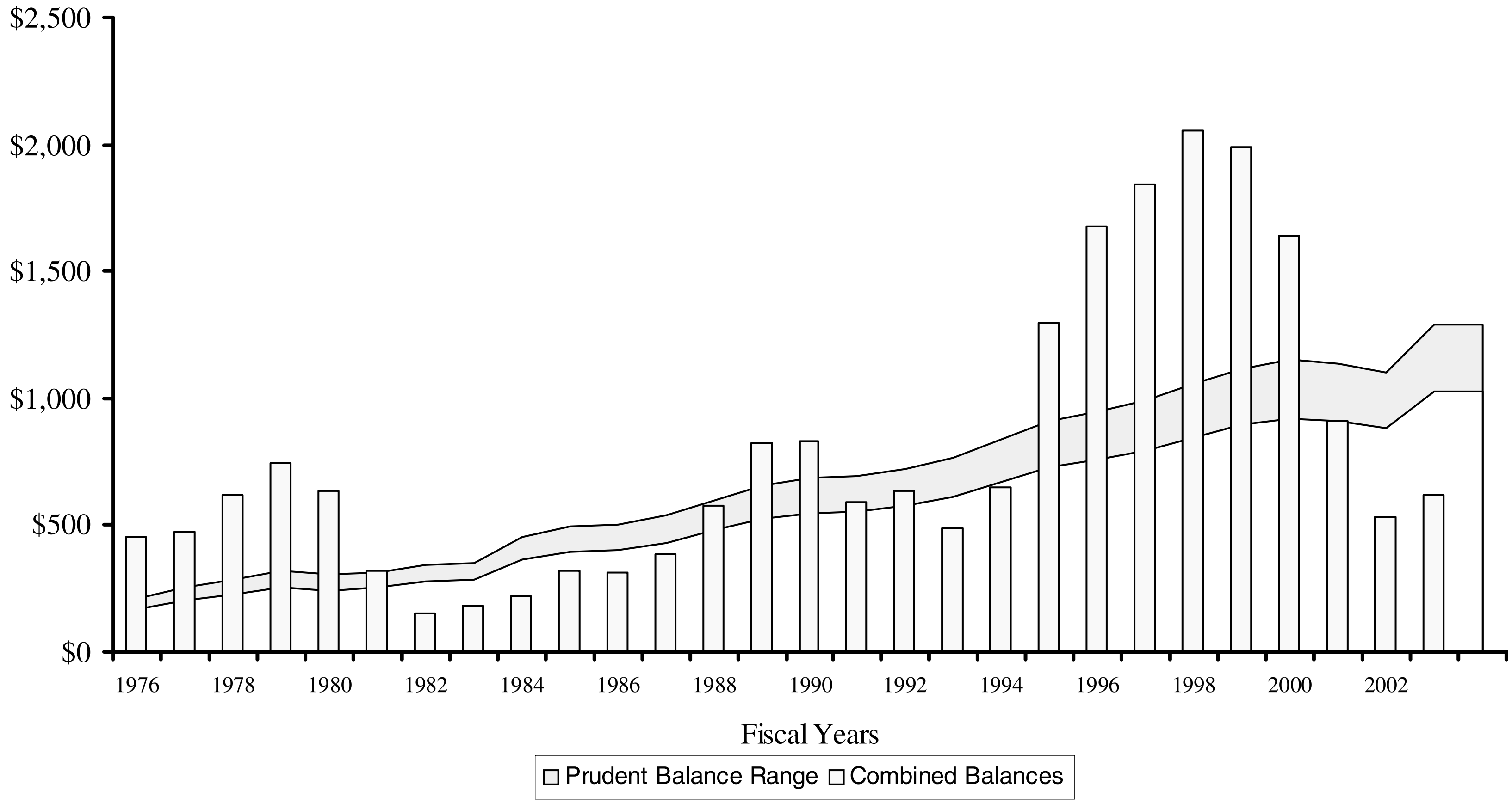
State Medicaid Reserve Balance as of July 1, 2001	**$100,000,000**
Transfers in (out)	
Transfer to General Fund	($100,000,000)
State Medicaid Reserve Balance as of June 30, 2002	**$0**

A History of State Operating Revenue and Reserve Fund Balances
Compared to the Operating Revenue Stream
(Millions of Dollars)

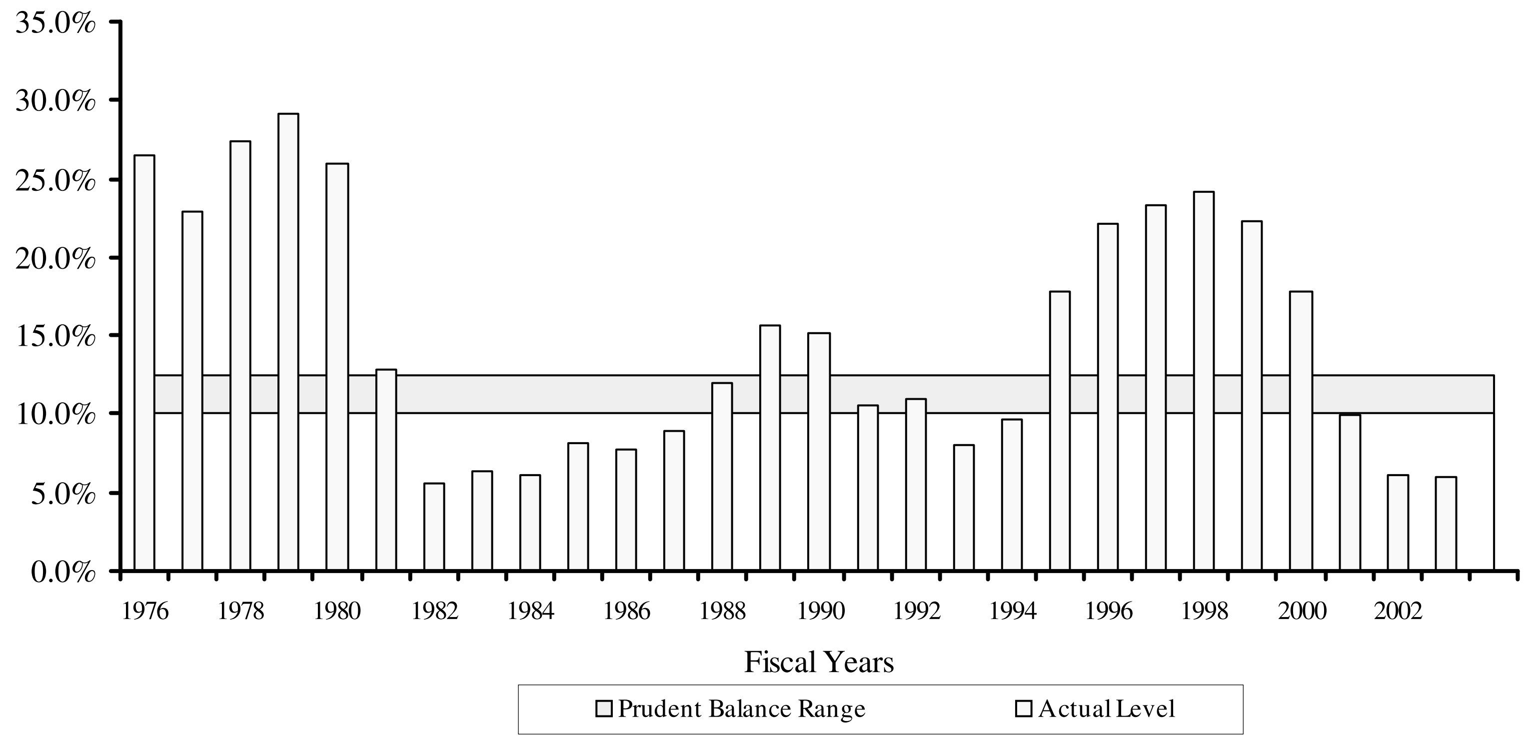
Fiscal Year	General Fund	Tuition Reserve	Prop Tax Repl Fund	Rainy Day Fund	Medicaid Reserve (5)	Total Balances	Operating Revenue(6)	Balance as % of Oper. Rev.
1979-1980	216.7	120.0	295.7	0	n/a	632.4	2437.9	25.94%
1980-1981 (1)	30.0	120.0	172.6	0	n/a	322.6	2521.8	12.79%
1981-1982	0.3	120.0	34.3	0	n/a	154.6	2743.7	5.63%
1982-1983 (2)	60.4	120.0	0	0	n/a	180.4	2823.5	6.39%
1983-1984	102.3	120.0	0	0	n/a	222.3	3612.8	6.15%
1984-1985	55.0	120.0	0	145.1	n/a	320.1	3948.1	8.11%
1985-1986	39.4	120.0	0	153.8	n/a	313.2	4027.3	7.78%
1986-1987	101.1	120.0	0	164.5	n/a	385.6	4319.6	8.93%
1987-1988 (3)	243.2	120.0	0	213.8	n/a	577.0	4805.0	12.01%
1988-1989	424.6	135.0	0	265.4	n/a	825.0	5263.3	15.67%
1989-1990	372.2	144.0	0	318.0	n/a	834.2	5491.3	15.19%
1990-1991	109.4	155.0	0	323.0	n/a	587.4	5560.6	10.56%
1991-1992	138.9	165.0	0	328.6	n/a	632.5	5784.5	10.93%
1992-1993	9.7	180.0	0	300.6	n/a	490.3	6098.6	8.04%
1993-1994	90.0	190.0	0	370.3	n/a	650.3	6720.1	9.68%
1994-1995	679.3	200.0	0	419.3	n/a	1298.6	7277.0	17.85%
1995-1996	1024.8	215.0	0	439.5	n/a	1679.3	7569.8	22.18%
1996-1997	1138.2	240.0	0	466.1	n/a	1844.3	7937.8	23.23%
1997-1998	1319.3	240.0	0	496.1	n/a	2055.4	8481.9	24.23%
1998-1999	1211.1	255.0	0	524.7	n/a	1990.8	8940.7	22.27%
1999-2000	832.6	265.0	0	539.9	n/a	1637.5	9199.9	17.80%
2000-2001	18.6	265.0	0	526.0	100.0	909.6	9122.9	9.97%
2001-2002	0	265.0	0	269.2	0.0	534.2	8795.9	6.07%
2002-2003 (4)	75.5	265.0	0	278.6	0.0	619.1	10298.4	6.01%

Notes:
(1) Income tax rate was reduced from 2.0% to 1.9% effective January 1, 1980.
(2) Income tax rate was increased from 1.9% to 3.0%, and the Sales tax rate was increased from 4% to 5% effective January 1, 1983.
(3) Income tax rate was increased from 3.0% to 3.4% effective July 1, 1987.
(4) Estimated by the Indiana State Budget Agency.
(5) Medicaid Reserve was not included in combined balances and reserves prior to Fiscal Year 2001. Reserve was set at $100,000,000 at the close of Fiscal Year 2001 per HEA 1001-2001. It is estimated the Reserve will be needed to cover current obligations for Fiscal Year 2003.
(6) Operating Revenues are the total of General Fund and PTR Fund revenues including lottery and DSH revenues transferred to the General Fund.

STATE OPERATING REVENUE AND RESERVE FUNDS
COMBINED BALANCES
(In Millions of Dollars)



STATE OPERATING REVENUE AND RESERVE BALANCES AS A PERCENTAGE OF OPERATING REVENUE



APPENDIX B

SERIES 2002 E QUALIFIED OBLIGATIONS

WHITE RIVER TOWNSHIP PUBLIC BUILDING CORPORATION

A. Certain General Economic and Demographic Information

White River Township is located in the northeast corner of Hamilton County, covering an area of approximately 50 square miles. Running through the Township are State Highways 37 and 213.

B. Description of Project

The purpose of the proposed Bonds is to fund the construction of a 14,650 square foot fire station which will contain five truck bays, equipment storage areas, offices and firemen's housing quarters.

C. Description of Qualified Obligations

Total Principal	-	$1,480,000 to mature serially over a period of 20 years.
Security	-	The Bonds will be payable from rental payments due under a Lease of the Project, as amended (the "Lease"), between White River Township Public Building Corporation, as lessor, and the Township, as lessee. On and after the date the Project has been completed and to the extent the Project is available for use and occupancy by the Township, the rental payments due under the Lease are payable from an unlimited ad valorem tax to be levied on all taxable property within White River Township, Hamilton County, Indiana.
Repayment Schedule	-	Annual principal payments commencing January 15, 2004 and terminating January 15, 2023.
Interest Payments	-	Semi-annual interest payments commencing January 15, 2003 and each July 15 and January 15 thereafter.

D. Financial Data Relating to the Qualified Entity

Net Assessed Valuation

Payable Year	Net Assessed Valuation (1)
2002	$75,985,655
2001	24,982,400
2000	24,230,460
1999	22,834,960
1998	22,301,170

(1) Prior to the 2001 Pay 2002 tax year, the State of Indiana used a real property valuation system that arrived at a full valuation designated as the True Tax Value that was then divided by three to arrive at the Assessed Value of the property. For the 2001 Pay 2002 tax year and subsequent years, property is valued at True Tax Value rather than Assessed Value. This has generally resulted in tax rates of approximately one-third of that used in prior years since the valuation basis is three times higher.

Property Taxes Levied and Collected

Tax Collection Year	Property Tax Levied	Property Tax Collected	Percent Collected
2001	$80,119	$78,069	97.44%
2000	74,436	75,596	101.56
1999	39,162	49,315	125.92

Tax Impact

The property tax rate is expected to increase by $0.1664/$100 of Assessed Value. The tax impact is based on estimated pay 2004 assessed value.

Largest Taxpayers

Name	2001/2002 Assessed Valuation
Panhandle Eastern Pipeline Company	$ 2,330,530
WVIT Broadcasting, Inc.	1,262,490
Purgatory Golf Club, Inc.	1,198,200
Indiana Michigan Power Company	986,000
Bryant Premium Pork, LLC	579,250

Source: Hamilton County Auditor

General Economic Characteristics

The Township economy is almost completely agricultural. There is no industry and small businesses in the Township employ only a few people at most. Non-farming residents commute to nearby communities for employment.

TOWN OF PITTSBORO MUNICIPAL SEWAGE UTILITY

A. Certain General Economic and Demographic Information

The Town of Pittsboro (the "Town"), located in Hendricks County approximately 15 miles northwest of Indianapolis, encompasses slightly more than one square mile in the Town's corporate limits. The Town had a population of 1,588 in 2000, an increase of 92.25% from the 1990 census.

The Town's Sewage Utility has approximately 857 customers. The Town owns and operates in addition to the Sewage Utility the local Water Utility. The Sewage Utility presently has $4,515,000 in Wastewater Treatment Plant Revenue Bonds, Series 1997 outstanding to be refunded with this issue. In addition, the Water Utility has $460,000 in revenue bonds outstanding.

B. Description of Project

The purpose of this issue is to advance refund and restructure the Town's Wastewater Treatment Plant Revenue Bonds, Series 1997 purchased by the Indiana Bond Bank. The 1997 sewer project allowed the Town to have its sewer ban lifted with the plant's completion in 1998.

C. Description of Qualified Obligations

Total Principal	-	$4,950,000 to mature serially over a period of 20 years.
Security and Lien	-	Net Revenues of the Sewage Utility. ("Net Revenues" are defined as gross revenues less reasonable expenses of operation, repair and maintenance).
Repayment Schedule	-	Annual principal payments commencing January 1, 2004 and terminating January 1, 2023.
Interest Payments	-	Semi-annual interest payments commencing January 1, 2003 and each July 1 and January 1 thereafter.
Debt Service Reserve	-	To be fully funded from cash on hand at closing.

D. Financial Data Relating to the Qualified Entity

Utility Rates	-	Billing for average residential usage (5,000 gallons of water) was set at a rate of $44.35 per month in July 2002. The average monthly bill rate will increase to $48.79 effective January 1, 2004, and $58.77 effective January 1, 2005. Rates are solely determined by the Town Council.
Debt Presently Outstanding	-	$4,515,000 Wastewater Treatment Plant Revenue Bonds, Series 1997 (to be refunded with this issue).
Pro Forma Coverage	-	1.25 times – pro forma Net Revenues divided by estimated maximum annual debt service. The Indiana Bond Bank requires pro forma coverage at the time of issuance of the Qualified Obligations to be equal to or greater than 1.25 times.

CITY OF LOOGOOTEE MUNICIPAL SEWAGE UTILITY

A. Certain General Economic and Demographic Information

The City of Loogootee (the "City") is located in Martin County, Indiana approximately 80 miles northeast of Evansville and 112 miles southwest of Indianapolis. Major highways include U.S. 231, 150 and 50. The City's population in the 2000 census was 2,741. The Loogootee/Martin County economy has a strong government sector, with sizable retail trade and wholesale sectors in the local economy as well.

The City's Sewage Utility has approximately 1,404 customers. The City owns and operates in addition to the Sewage Utility the local Water Utility. The Sewage Utility presently has $1,005,000 in revenue bonds outstanding. In addition, the Water Utility has $1,985,000 in revenue bonds outstanding.

B. Description of Project

Proceeds of the Qualified Obligations will be used for the rehabilitation and upgrading of the existing Wastewater Treatment Plant. The project will consist of the construction of a new oxidation ditch, two new final clarifiers, an aerobic digester, an ultraviolet disinfection facility with a step aerator, sludge press facilities and a new laboratory and maintenance facility.

C. Description of Qualified Obligations

Total Principal	-	$3,580,000 to mature serially over a period of 20 years.
Security and Lien	-	Net Revenues of the Sewage Utility are on a parity with the $1,005,000 Sewage Works Refunding Revenue Bonds of 2001. ("Net Revenues" are defined as gross revenues less reasonable expenses of operation, repair and maintenance).
Repayment Schedule	-	Annual principal payments commencing October 1, 2003 and terminating October 1, 2022.
Interest Payments	-	Semi-annual interest payments commencing April 1, 2003 and each October 1 and April 1 thereafter.
Debt Service Reserve	-	To be funded from pledged Net Revenues within five years of issuance, subject to the limits of federal and state tax law.

D. Financial Data Relating to the Qualified Entity

Utility Rates	-	Billing for average residential usage (5,000 gallons of water) is set at a rate of $48.97 per month. Rates were last increased in March 2002. Rates are solely adjudicated by the Common Council.
Debt Presently Outstanding of Sewage Utility	-	$1,005,000 Sewage Works Refunding Revenue Bonds of 2001 (the "2001 Bonds") (on a parity with the Qualified Obligations).
Pro Forma Coverage	-	1.72 times – pro forma Net Revenues divided by estimated maximum annual debt service on the 2001 Bonds and the Qualified Obligations. The Indiana Bond Bank requires pro forma coverage at the time of issuance of the Qualified Obligations to be equal to or greater than 1.25 times.

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APPENDIX C

FORM OF BOND COUNSEL OPINION

APPENDIX C

FORM OF BOND COUNSEL OPINION

Upon delivery of the Bonds, Barnes & Thornburg, bond counsel,
will deliver an opinion substantially in the following form:

September 12, 2002

Indiana Bond Bank
Indianapolis, Indiana

Re: Indiana Bond Bank Special Program Bonds, Series 2002 E

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Indiana Bond Bank (the "Issuer") of its Special Program Bonds, Series 2002 E, dated as of September 1, 2002 (the "Bonds"), in the aggregate principal amount of $10,155,000, pursuant to Indiana Code 5-1.5, as amended, and a Trust Indenture between the Issuer and Union Federal Bank of Indianapolis, as trustee (the "Trustee"), dated as of September 1, 2002 (the "Indenture"). We have examined the law and such certified proceedings for the authorization, issuance and sale of the Bonds and such other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Issuer contained in the Indenture, the certified proceedings for the authorization, issuance and sale of the Bonds and other certifications of public officials furnished to us, and certifications, representations and other information furnished to us by or on behalf of the Issuer, the Series 2002 E Qualified Entities (as defined in the Indenture) and others, including certifications contained in the tax and arbitrage certificate of the Issuer, dated the date hereof, and the tax and arbitrage certificates of each of the Series 2002 E Qualified Entities, dated the date hereof, without undertaking to verify the same by independent investigation. We have relied upon the opinion of Hall, Render, Killian, Heath & Lyman, Professional Services Corporation, Indianapolis, Indiana, counsel to the Issuer, dated the date hereof, as to the matters stated therein. We have relied upon the report of Crowe, Chizek and Company LLP, Indianapolis, Indiana, independent certified public accountants, dated the date hereof, as to the matters stated therein.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Issuer is a body corporate and politic validly existing under Indiana Code 5-1.5, with the corporate power to execute and deliver the Indenture and to issue, execute and deliver the Bonds.

2. The Bonds have been duly authorized, executed and delivered by the Issuer, and are valid and binding limited obligations of the Issuer, enforceable in accordance with their terms. The Bonds are payable solely from the Trust Estate (as defined in the Indenture).

3. The Indenture has been duly authorized, executed and delivered by the Issuer, and is a valid and binding obligation of the Issuer, enforceable against the Issuer in accordance with its terms.

4. Under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on this date (the "Code"), the interest on the Bonds is excluded from gross income for federal income tax purposes. The opinion set forth in the preceding sentence is subject to the condition that each of the Issuer and the Series 2002 E Qualified Entities comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. Each of the Issuer and the Series 2002 E Qualified Entities has covenanted or represented that it will comply with such

requirements. Failure to comply with certain of such requirements may cause the interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. Except for the opinion expressed in paragraph 5 hereof, we express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

5. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings.

6. Interest on the Bonds is exempt from income taxation in the State of Indiana (the "State") for all purposes except the State financial institutions tax.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement, dated September 6, 2002, or any other offering material relating to the Bonds.

With respect to the enforceability of any document or instrument, this opinion is subject to the qualifications that: (i) enforceability of such document or instrument may be limited by bankruptcy, insolvency, reorganization, receivership, moratorium, fraudulent conveyance and similar laws relating to or affecting the enforcement of creditors' rights; (ii) the enforceability of equitable rights and remedies provided for in such document or instrument is subject to judicial discretion, and the enforceability of such document or instrument may be limited by general principles of equity; (iii) the enforceability of such document or instrument may be limited by public policy; and (iv) certain remedial, waiver and other provisions of such document or instrument may be unenforceable, provided, however, that in our opinion the unenforceability of those provisions would not, subject to the other qualifications set forth herein, affect the validity of such document or instrument or prevent the practical realization of the benefits thereof.

Very truly yours,

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain additional provisions of the Indenture not otherwise discussed in this Official Statement. This summary is qualified in its entirety by reference to the Indenture.

Accounts and Reports

The Bond Bank will keep proper and separate books of records and accounts in which complete and correct entries will be made of its transactions relating to the Funds and Accounts established by the Indenture. Such books, and all other books and papers of the Bond Bank, and all Funds and Accounts will at all reasonable times be subject to the inspection of the Trustee and the owners of an aggregate of at least 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

Before the twentieth day of each month, the Trustee will provide the Bond Bank with a statement of the amounts on deposit in each Fund and Account as of the first day of that month and the total deposits to and withdrawals from each Fund and Account during the preceding month. The Bond Bank may provide for less frequent statements so long as such statements are supplied no less frequently than quarterly.

Preservation of Tax Exemption for the Bonds

In order to assure the continuing excludability of interest on the Bonds from the gross income of the owners thereof for purposes of federal income taxation, the Bond Bank covenants and agrees that it will not take any action or fail to take any action with respect to the Bonds, that would result in the loss of the exclusion from gross income for federal tax purposes of interest on any of the Bonds pursuant to Section 103 of the Code, nor will the Bond Bank act in any other manner which would adversely affect such exclusion and it will not make any investment or do any other act or thing during the period that the Bonds are Outstanding which would cause any of the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code, all as in effect on the date of delivery of the particular Series of Bonds. Pursuant to the Indenture, all of these covenants are based solely on current law as in existence and effect on the date of delivery of the particular Series of Bonds. It will not be an Event of Default under the Indenture if the interest on the Bonds is not excluded from gross income for federal tax purposes or otherwise pursuant to any provision of the Code which is not currently in effect and in existence on the date of the issuance of such Bonds.

In making any determination regarding the covenants, the Bond Bank may rely on an Opinion of Bond Counsel.

Covenants Concerning the Program

In order to provide for the payment of the principal of, premium if any, and interest on the Bonds and of Program Expenses, the Bond Bank will from time to time, with all practical dispatch and in a sound and economical manner in accordance with the Act, the Indenture and sound banking practices and principals (i) do all acts and things as are necessary to receive and collect Revenues (including the enforcement of the prompt collection of any arrears on all Qualified Obligation Payments), and (ii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of the Bond Bank to protect the rights of the Bond Bank with respect to the Qualified Obligations and to enforce all terms, covenants and conditions of the Qualified Obligations. Whenever necessary in order to provide for the payment of principal of and interest on the Bonds, the Bond Bank will also commence appropriate remedies with respect to any Qualified Obligation which is in default.

Covenants with Respect to Qualified Obligations

With respect to the Qualified Obligations, the Bond Bank covenants as follows:

(a) Not to permit or agree to any material change in any Qualified Obligation (other than ones for which consent of the Bond Bank is not required) unless the Bond Bank supplies the Trustee with a Cash Flow Certificate to the effect that, after such change, Revenues expected to be received in each Fiscal Year, together with moneys expected to be held in the Funds and Accounts, will at least equal debt service on all Outstanding Bonds along with Program Expenses, if any in each such Fiscal Year.

(b) To the extent that such action would not adversely affect the validity of the Qualified Obligation or other obligations of the Qualified Entity, the Bond Bank will pursue the remedies set forth in the Act, particularly Indiana Code 5-1.5-8-5, for the collection of deficiencies in Qualified Obligation Payments on any Qualified Obligation by collection of such deficiencies out of certain State funds payable but not yet paid to a defaulting Qualified Entity.

(c) To enforce or authorize the enforcement of all remedies available to the Bond Bank as the owner or holder of the Qualified Obligations, unless the Bond Bank provides the Trustee with a Cash Flow Certificate to the effect that, if such remedies are not enforced, Revenues expected to be received in each Fiscal Year, together with moneys expected to be held in the Funds and Accounts, will at least equal debt service on all Outstanding Bonds in each such Fiscal Year; provided, however, that decisions as to the enforcement of remedies shall be within the sole discretion of the Trustee.

(d) Not to sell or dispose of the Qualified Obligations, unless the Bond Bank first provides the Trustee with a Cash Flow Certificate to the effect that, after such sale, Revenues expected to be received in each Fiscal Year, together with moneys expected to be held in the Funds and Accounts, minus any proceeds of such sale or disposition transferred from any Fund or Account, will at least equal debt service on all Outstanding Bonds along with Program Expenses, if any, in each such Fiscal Year.

Certification Covenants

In the event that a deficiency in the Debt Service Reserve Fund is projected in the annual budget of the Bond Bank, the Chairman of the Board of Directors of the Bond Bank will certify such projected deficiency to the State General Assembly on or before August 1 of the Fiscal Year in which such deficiency is projected to occur. Further, regardless of whether any such deficiency was projected for its annual budget and regardless of the time at which such deficiency occurs or is projected to occur, the Bond Bank will take all actions required or allowed under the Act to certify any deficiency or projected deficiency in the Debt Service Reserve Fund to the State General Assembly.

Budgets

The Bond Bank will adopt and file with the Trustee, upon the written request of the Trustee, and appropriate State officials under the Act an annual budget covering its fiscal operations for the succeeding Fiscal Year not later than June 1 of each year. The annual budget will be open to inspection by any Owner of Bonds. In the event the Bond Bank does not adopt an annual budget for the succeeding Fiscal Year on or before June 1, the budget for the preceding Fiscal Year will be deemed to have been adopted and be in effect for the succeeding Fiscal Year until the annual budget for such Fiscal Year has been duly adopted. The Bond Bank may at any time adopt an amended annual budget in the manner then provided in the Act.

Defeasance and Discharge of Lien of Indenture

If payment or provision for payment is made to the Trustee of the principal of and interest due and to become due on all of the Bonds then Outstanding under the Indenture, and if the Trustee receives all payments due and to become due under the Indenture, then the Indenture may be discharged in accordance with its provisions. In the event of any early redemption of Bonds in accordance with their terms, the Trustee must receive irrevocable instructions from the Bond Bank, satisfactory to the Trustee, to call such Bonds for redemption at a specified date and pursuant to the Indenture. Outstanding Bonds will continue to be a limited obligation of the Bond Bank payable only out of the moneys or securities held by the Trustee for the payment of the principal of and interest on the Bonds.

Any Bond will be deemed to be paid when (a) payment of the principal of that Bond, plus interest to its due date, either (i) has been made or has been caused to be made in accordance with its terms, or (ii) has been provided for by irrevocably depositing with the Trustee, in trust and exclusively for such payment, (1) moneys sufficient to make such payment, (2) Governmental Obligations maturing as to principal and interest in such amounts and at such times, without consideration of any reinvestment thereof, as will insure the availability of sufficient moneys to make such payments, or (3) a combination of such moneys and Governmental Obligations, and (b) all other sums payable under the Indenture, including the necessary and proper fees and expenses of the Trustee pertaining to the Bonds, have been paid or deposited with the Trustee.

Events of Default and Remedies

Any of the following events constitutes an "Event of Default" under the Indenture:

(a) The Bond Bank defaults in the due and punctual payment of the principal of or interest on any Bond;

(b) The Bond Bank defaults in carrying out any of its other covenants, agreements or conditions contained in the Indenture or in the Bonds, and fails to remedy such Event of Default within 60 days after receipt of notice, all in accordance with the Indenture;

(c) Any warranty, representation or other statement by or on behalf of the Bond Bank contained in the Indenture, or in any instrument furnished in compliance with or in reference to the Indenture, is materially false or misleading when made, and there has been a failure to remedy such Event of Default within 60 days after receipt of notice, all in accordance with the Indenture;

(d) The Bond Bank fails to make remittances required by the Indenture to the Trustee within the time limits prescribed in the Indenture;

(e) A petition is filed against the Bond Bank under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect and is not dismissed within 60 days after such filing;

(f) The Bond Bank files a voluntary petition in bankruptcy or seeking relief under any provisions of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, or consents to the filing of any petition against it under such law;

(g) The Bond Bank is generally not paying its debts as such debts become due, or becomes insolvent, bankrupt, or makes an assignment for the benefit of creditors, or a liquidator or trustee of the Bond Bank or any of its property is appointed by court order or takes possession and such order remains in effect or such possession continues for more than 60 days;

(h) The Bond Bank fails to restore the Debt Service Reserve Fund to the applicable Debt Service Reserve Requirement within 60 days after the end of the Fiscal Year during which a deficiency occurs; or

(i) The Bond Bank is rendered incapable of fulfilling its obligations under the Indenture for any reason.

Upon the occurrence of an Event of Default, the Trustee will notify the Owners of Outstanding Bonds of such Event of Default and will have the following rights and remedies:

(a) The Trustee may pursue any available remedy at law or in equity to enforce the payment of the principal of and interest on Bonds outstanding under the Indenture, including any and all such actions arising under, or by reason of, the Qualified Obligations;

(b) The Trustee may by action at law or in equity require the Bond Bank to account as if it were the trustee of an express trust for the Owners of the Bonds, and may take such action with respect to the Qualified Obligations as the Trustee deems necessary, appropriate and in the best interest of the Bondholders, subject to the terms of the Qualified Obligations.

(c) Upon the filing of a suit or other commencement of judicial proceedings to enforce any rights of the Trustee and of the Bondholders under the Indenture, the Trustee will be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate under the Indenture and of the Revenues, issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment will confer; and

(d) By notice to the Bond Bank and the Attorney General of the State, the Trustee may declare the principal of and accrued interest on all Bonds to be due and payable immediately in accordance with the provisions of the Indenture and the Act. Notwithstanding the foregoing, for so long as the Policy remains in full force and effect, there will not be any acceleration of principal of, or interest on, the Series 2002 E Bonds unless the Trustee receives the express written consent of the Series 2002 E Bond Insurer prior to taking such action.

If an Event of Default has occurred, if requested to do so by the Owners of 25% or more in aggregate principal amount of the Bonds Outstanding under the Indenture, and if indemnified as provided in the Indenture, the Trustee will be obligated to exercise one or more of the rights and powers conferred by the Indenture as the Trustee, being advised by counsel, deems most expedient in the interest of the Bondholders; provided, however, that if the Series 2002 E Bond Insurance Policy is in full force and effect, the Trustee must receive the express written consent of the Series 2002 E Bond Insurer before exercising any such right or remedy in connection with the Series 2002 E Bonds.

The Owners of a majority in aggregate principal amount of the Bonds Outstanding under the Indenture will have the right, at any time during the continuance of an Event of Default, by a written instrument or instruments executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings under the Indenture. However, such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture; provided, however, that for so long as the Series 2002 E Bond Insurance Policy remains in full force and effect, the Trustee must receive the express written consent of the Series 2002 E Bond Insurer before conducting any such proceedings in connection with the Series 2002 E Bonds.

Waivers of Events of Default

At its discretion, the Trustee may waive any Event of Default and its consequences, and must do so upon the written request of the owners of (a) more than sixty-six and two-thirds percent (66 2/3%) in aggregate principal amount of all Bonds then Outstanding in respect of which an Event of Default in the payment of principal or interest exists, or (b) more than fifty percent (50%) in aggregate principal amount of all Bonds then Outstanding in the case of any other default. However, there may not be waived (i) any Event of Default in the payment of the principal of any Bond then Outstanding under the Indenture at the specified date of maturity or (ii) any Event of Default in the payment when due of the interest on any Bond then Outstanding under the Indenture, unless prior to the waiver, all arrears of interest or principal due, as the case may be, with interest on overdue principal at the rate borne by such Bond, and all expenses of the Trustee in connection with the Event of Default have been paid or provided for. In case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such Event of Default is discontinued or abandoned or determined adversely, then the Bond Bank, the Trustee and the Bondholders will be restored to their former respective positions and right under the Indenture. No waiver or rescission will extend to any subsequent or other Event of Default or impair any right consequent thereon.

Rights and Remedies of Owners of Bonds

No owner of any Bond will have any right to institute any suit, action or proceeding at law or in equity for the enforcement of the Indenture or for the execution of any trust thereof or for any other remedy under the Indenture, unless (a) an Event of Default has occurred, (b) such Default shall have become an Event of Default and the owners of not less than 25% in aggregate principal amount of Bonds then Outstanding have made written request to the Trustee and have offered the Trustee reasonable opportunity either to proceed to exercise the remedies granted in the Indenture or to institute such action, suit or proceeding in its own name, (c) such owners of Bonds have offered to indemnify the Trustee, as provided in the Indenture, and (d) the Trustee has refused, or for 60 days after receipt of such request and offer of indemnification has failed, to exercise the remedies granted in the Indenture or to institute such action, suit or proceeding in its own name. All proceedings at law or in equity must be carried out as provided in the Indenture and for the equal benefit of the owners of all Outstanding Bonds. However, nothing contained in the Indenture will affect or impair the right of any owner of Bonds to enforce the payment of the principal of and interest on any Bond at and after its maturity, or the limited obligation of the Bond Bank to pay the principal of and interest on each of the Bonds to the respective owners of the Bonds at the time and place, from the source and in the manner expressed in the Bonds.

Series 2002 E Bond Insurer as the Sole Bondholder

For so long as the Series 2002 E Bond Insurance Policy remains in full force and effect, the Series 2002 E Bond Insurer will be deemed by the Trustee and the Bond Bank to be the sole holder or owner of the Series 2002 E Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Series 2002 E Bonds are entitled to take under the Indenture upon the occurrence of an Event of Default.

Supplemental Indentures

The Bond Bank and the Trustee may, without the consent of or notice to any of the owners of Bonds, enter into an indenture or indentures supplemental to the Indenture for any one or more of the following purposes:

(a) To cure any ambiguity, formal defect or omission in the Indenture;

(b) To grant to or confer upon the Trustee for the benefit of the owners of Bonds then Outstanding any additional benefits, rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Bondholders or the Trustee, or to make any change which, in the judgment of the Trustee, does not materially and adversely affect the interests of the Bondholders and does not otherwise require the unanimous consent of all Bondholders under the Indenture;

(c) To subject to the lien and pledge of the Indenture additional Revenues, properties or collateral;

(d) To modify, amend or supplement the Indenture or any supplemental indenture in order to permit qualification under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of the United States of America or of any of the states of the United States of America, and, if the Bond Bank and the Trustee so determine, to add to the Indenture or to any supplemental indenture such other terms, conditions and provisions as may be permitted by the Trust Indenture Act of 1939 or similar federal statute;

(e) To give evidence of the appointment of a separate or co-trustee, or the succession of a new Trustee or the succession of a new registrar and/or paying agent;

(f) In connection with the issuance of Refunding Bonds;

(g) To provide for the refunding of all or a portion of the Bonds; and

(h) To amend the Indenture to permit the Bond Bank to comply with any future federal tax law or any covenants contained in any Supplemental Indenture with respect to compliance with future federal tax laws.

With the exception of Supplemental Indentures for the purposes described in the preceding paragraph and subject to the terms of the Indenture, the owners of not less than a majority of the aggregate principal amount of the Bonds then Outstanding which are affected (other than Bonds held by the Bond Bank) will have the right from time to time to consent to and approve the execution by the Bond Bank and the Trustee of any supplemental indenture or indentures deemed necessary and desirable by the Bond Bank or the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture, but only with the express written consent of the Series 2002 E Bond Insurer for so long as the Series 2002 E Bond Insurance Policy remains in full force and effect; provided, however, no supplemental indenture may permit or be construed as permitting, without the consent of the owners of all Bonds then Outstanding under the Indenture and the Series 2002 E Bond Insurer for so long as the Series 2002 E Bond Insurance Policy remains in full force and effect, (a) an extension of the stated date for maturity or redemption or a reduction in the principal amount of or redemption premium, or reduction on the rate or extension of the time of payment of the interest on, any Bonds, (b) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (c) a reduction in the aggregate principal amount of the Bonds the owners of which are required to consent to such supplemental indenture, (d) the creation of any lien securing any Bonds other than a lien ratably securing all of the Bonds, at any time Outstanding, (e) a reduction in the Reserve Requirement, or (f) any amendment or modification of the trusts, powers, rights, obligations, duties, remedies, immunities and privileges of the Trustee without the written consent of the Trustee.

Additional Provisions Regarding the Series 2002 E Bond Insurer

For so long as the Series 2002 E Bond Insurance Policy remains in full force and effect the following provisions described below shall govern, notwithstanding anything to the contrary set forth in the Indenture:

(a) The prior written consent of the Series 2002 E Bond Insurer shall be a condition precedent to the deposit of any Debt Service Reserve Fund Credit Facility other than the Credit Facility provided in lieu of a cash deposit into the Debt Service Reserve Fund. Notwithstanding anything to the contrary set forth in the Indenture, amounts on deposit in the Debt Service Reserve Fund shall be applied solely to the payment of debt service on the Series 2002 E Bonds.

(b) The Series 2002 E Bond Insurer will be deemed by the Trustee and the Bond Bank as the sole holder of the Series 2002 E Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Series 2002 E Bonds are entitled to take pursuant to those provisions of the Indenture pertaining to defaults and remedies and the duties and obligations of the Trustee, if any. The Trustee shall take no action except with the consent, or at the direction, of the Series 2002 E Bond Insurer. The maturity of Bonds shall not be accelerated without the consent of the Series 2002 E Bond Insurer.

(c) No grace period for a covenant default under the Indenture will exceed thirty (30) days, nor be extended for more than sixty (60) days, without the prior express written consent of the Series 2002 E Bond Insurer. No grace period shall be permitted for payment.

(d) The Series 2002 E Bond Insurer will be included as a third party beneficiary of the covenants in the Indenture made by the Bond Bank for the benefit of the owners of the Series 2002 E Bonds.

(e) Upon the occurrence of an extraordinary mandatory redemption in part, the selection of Series 2002 E Bonds to be redeemed shall be subject to the approval of the Series 2002 E Bond Insurer.

(f) The rights granted to the Series 2002 E Bond Insurer under the Indenture to request, consent to or direct any action are rights granted to the Series 2002 E Bond Insurer in consideration of its issuance of the Series 2002 E Bond Insurance Policy. Any exercise by the Series 2002 E Bond Insurer of such rights is merely an exercise of the Series 2002 E Bond Insurer's contractual rights and should not be construed or deemed to be taken for the benefit or on behalf of the owners of the Series 2002 E Bonds nor does such action evidence any position of the Series 2002 E Bond Insurer, positive or negative, as to whether the consent of the owners of the Series 2002 E Bonds is required in addition to the consent of the Series 2002 E Bond Insurer.

(g) To the extent the Series 2002 E Bonds are paid by the Series 2002 E Bond Insurer under the Series 2002 E Bond Insurance Policy, such Series 2002 E Bonds shall not be deemed paid for purposes of the Indenture and shall remain Outstanding and continue to be due and owing until paid by the Bond Bank in accordance with the Indenture.

(h) The Indenture will not be discharged until all amounts due or to become due to the Series 2002 E Bond Insurer have been paid in full or duly provided for.

(i) The Series 2002 E Bond Insurer shall, to the extent it makes any payment of principal of or interest on the Series 2002 E Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Series 2002 E Bond Insurance Policy.

(j) The Series 2002 E Bond Insurer will be provided with the following information:

(1) Annual audited financial statements of the Bond Bank, if any, as soon as practicable after the end of each Fiscal Year;

(2) The Bond Bank's annual budget within thirty (30) days after its adoption;

(3) Notice of any draw upon the Debt Service Reserve Fund within two (2) business days after knowledge thereof other than (i) withdrawals of amounts in excess of the Reserve Requirement, or (ii) withdrawals in connection with a refunding of the Bonds;

(4) Notice of the occurrence of any default known to the Trustee within five business days after knowledge thereof by the Trustee, including any default with respect to a Series 2002 E Qualified Obligation;

(5) Prior notice of any advance refunding or redemption of any of the Series 2002 E Bonds, including the principal amount, maturities and CUSIP numbers of such Series 2002 E Bonds;

(6) Notice of any resignation or removal of the Trustee, and the appointment of, and acceptance of duties by, any successor thereto;

(7) Notice of the commencement of any proceeding by or against the Bond Bank or any Series 2002 E Qualified Entity (if known by the Bond Bank) commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding");

(8) Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the Series 2002 E Bonds;

(9) A full original transcript of all proceedings related to the execution of any amendment or supplement to the Indenture or the Series 2002 E Qualified Obligations; and

(10) All reports, notices and correspondence delivered under the Indenture or the Series 2002 E Qualified Obligations.

(k) Each of the Bond Bank and the Trustee covenant and agree to take such action (including, as applicable, filing of UCC financing statements and continuations thereof) as is necessary from time to tine to perfect or otherwise preserve the priority of the pledge of the Trust Estate under State law.

(l) The Bond Bank shall pay or reimburse the Series 2002 E Bond Insurer any and all charges, fees, costs and expenses which the Series 2002 E Bond Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in the Indenture or any Series 2002 E Qualified Obligation; (ii) the pursuit of any remedies under the Indenture or any Series 2002 E Qualified Obligation or otherwise afforded by law or equity; (iii) any amendment, waiver or other action with respect to, or related to, the Indenture or any Series 2002 E Qualified Obligation whether or not executed or completed; (iv) the violation by the Bond Bank or any Series 2002 E Qualified Entity of any law, rule or regulation, or any judgment, order or decree applicable to it or (v) any litigation or other dispute in connection with the Indenture or any Series 2002 E Qualified Obligation or the transactions contemplated thereby, other than amounts resulting from the failure of the Series 2002 E Bond Insurer to honor its obligations under the Series 2002 E Bond Insurance Policy. The Series 2002 E Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Indenture or any Series 2002 E Qualified Obligation.

After payment of reasonable expenses of the Trustee, the application of funds realized upon default shall be applied to payment of expenses of the Bond Bank or rebate only after the payment of debt service due and past due on the Series 2002 E Bonds, together with replenishment of the Debt Service Reserve Fund.

The Series 2002 E Bond Insurer shall be entitled to pay principal of or interest on the Series 2002 E Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Bond Bank (as such terms are defined in the Series 2002 E Bond Insurance Policy) and any amounts due on the Series 2002 E Bonds as a result of acceleration of the maturity thereof in accordance with the Indenture, whether or not the Series 2002 E Bond Insurer has received a Notice of Nonpayment (as such terms are defined in the Series 2002 E Bond Insurance Policy) or a claim upon the Series 2002 E Bond Insurance Policy.

(m) To accomplish defeasance, the Bond Bank shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Series 2002 E Bond Insurer ("Accountant") verifying the sufficiency of the escrow established to pay the Series 2002 E Bonds in full on the maturity or redemption date ("Verification"), (ii) an Escrow Deposit Agreement (which shall be acceptable in form and substance to the Series 2002 E Bond Insurer), (iii) an opinion of nationally recognized bond counsel to the effect that the Series 2002 E Bonds are no longer "Outstanding" under the Indenture and (iv) a certificate of discharge of the Trustee with respect to the Series 2002 E Bonds. Each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the Bond Bank, the Trustee and the Series 2002 E Bond Insurer. The Series 2002 E Bond Insurer shall be provided with final drafts of the above-referenced documentation not less than five business days prior to the funding of the escrow.

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APPENDIX E

DEFINITIONS

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The following are definitions of certain terms used in the Official Statement, including its Appendices:

"Accounts" means the accounts created pursuant to the Indenture.

"Act" means the provisions of Indiana Code 5-1.5, as from time to time amended.

"Authorized Officer" means the Chairman, Vice Chairman or Executive Director of the Bond Bank or such other person or persons who are duly authorized to act on behalf of the Bond Bank.

"Bankruptcy Code" means the Bankruptcy Reform Act of 1978, as amended from time to time.

"Bond Bank" means the Indiana Bond Bank, a public body corporate and politic, not a state agency, but an independent public instrumentality of the State exercising essential public functions, or any successor to its functions.

"Bondholder" or "holder of Bonds" or "owner of Bonds" or any similar term means the registered owner of any Bond.

"Bond Issuance Expense Account" means the account by that name created by the Indenture.

"Bonds" means the Series 2002 E Bonds and any Refunding Bonds.

"Cash Flow Certificate" means a certificate prepared by an accountant or firm of accountants in accordance with the Indenture concerning anticipated Revenues and payments.

"Code" means the Internal Revenue Code of 1986 in effect on the date of issuance of the Series 2002 E Bonds, and the applicable regulations or rulings promulgated or proposed thereunder, and any successor thereto.

"Costs of Issuance" shall mean items of expense payable or reimbursable directly or indirectly by the Bond Bank and related to the authorization, sale and issuance of the Bonds, which items of expense shall include, but not be limited to, printing costs, costs of reproducing documents, filing and recording fees, initial fees and charges of the Trustee, underwriter's discounts, legal fees and charges, professional consultants' fees, costs of credit ratings, fees and charges for execution, transportation and safekeeping of the Bonds, bond or reserve fund insurance premiums, credit enhancements (including Credit Facilities) or liquidity facility fees, and other costs, charges and fees in connection with the foregoing.

"Counsel" means an attorney duly admitted to practice law before the highest court of any state and approved by the Bond Bank.

"Credit Facility" means any letter of credit, revolving credit agreement, surety bond, insurance policy or other agreement or instrument.

"Credit Provider" means the issuer of any Credit Facility and its successor in such capacity and their assigns. To qualify under the Indenture, the Credit Provider providing such Credit Facility shall be either:

(i) an insurer whose municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bond issues results in such issues being rated in a rating category that is at least as high as the rating assigned to the Bonds by the rating agency or agencies rating the Bonds; or

(ii) a bank or trust company which at the time of issuance of such Credit Facility has an outstanding, unsecured, uninsured and unguaranteed debt issue rated in a rating category that is at least as high as the rating assigned to the Bonds by the rating agency or agencies rating the Bonds.

"Debt Service Reserve Fund" means the fund by that name created by the Indenture.

"Debt Service Reserve Fund Credit Facility" means any Credit Facility, including the FSA Credit Facility issued or provided by a Credit Provider, including Financial Security Assurance Inc., (i) which may be deposited in a reserve account in the Debt Service Reserve Fund in lieu of or in partial substitution for cash or investment securities to be on deposit therein, and (ii) which shall be payable (upon the giving of notice as required thereunder) on any due date on which moneys will be required to be withdrawn from such reserve account in which such Credit Facility is deposited and applied to the payment of the principal of or interest on any Bonds.

"Debt Service Reserve Fund Reimbursement Obligation" means any obligation to reimburse the Credit Provider of any Debt Service Reserve Fund Credit Facility for any payment made under such Debt Service Reserve Fund Credit Facility or any other obligation to repay any amounts (including, but not limited to, fees or additional interest) to the Credit Provider.

"Default" means an event or condition, the occurrence of which, with the lapse of time or the giving of notice or both, would become an Event of Default under the Indenture.

"Event of Default" means any occurrence of an event specified in the Indenture.

"Fees and Charges" means fees and charges established by the Bond Bank from time to time pursuant to the Act which are payable by the Series 2002 E Qualified Entities.

"Fiscal Year" means the twelve-month period from July 1 through the following June 30.

"FSA Credit Facility" means the Debt Service Reserve Fund Credit Facility issued by Financial Security Assurance Inc.

"Funds" means the funds created pursuant to the Indenture, except for the Rebate Fund.

"General Account" means the account by that name created by the Indenture.

"General Fund" means the fund by that name created by the Indenture.

"Governmental Obligations" means (a) direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America ("United States Treasury Obligations"), (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

"Indenture" means the Trust Indenture, dated as of September 1, 2002 between the Indiana Bond Bank and Union Federal Bank of Indianapolis, and all supplements and amendments thereto entered into pursuant thereto.

"Interest Payment Date" means any date on which interest is payable on the Bonds.

"Investment Agreement" means the Investment Agreement dated as of the date of closing, between CDC Funding Corp. and the Trustee, as further identified in the Indenture.

"Investment Earnings" means earnings and profits (after consideration of any accrued interest paid and/or amortization of premium or discount on the investment) on the moneys in the Funds and Accounts established under the Indenture.

"Moody's" means Moody's Investors Service or any successor thereto.

"Notice Address" means, with respect to a Qualified Entity, the Qualified Entity's address given in connection with the sale of its Qualified Obligations to the Bond Bank, and, with respect to the Bond Bank, the Trustee and the Series 2002 E Bond Insurer:

Bond Bank:	Indiana Bond Bank Attention: Chairman 2980 Market Tower Indianapolis, IN 46204
Trustee:	Union Federal Bank of Indianapolis 45 N. Pennsylvania Street, 1st Floor Indianapolis, IN 46204
Series 2002 E Bond Insurer:	Financial Security Assurance Inc. 350 Park Avenue New York, NY 10022-6022 Attention: Managing Director – Surveillance

"Opinion of Bond Counsel" means an Opinion of Counsel by a nationally recognized firm experienced in matters relating to the tax exemption for interest payable on obligations of states and their instrumentalities and political subdivisions under federal law and which is acceptable to the Bond Bank and the Trustee.

"Opinion of Counsel" means a written opinion of Counsel addressed to the Trustee, for the benefit of the owners of the Bonds, who may (except as otherwise expressly provided in the Indenture) be Counsel to the Bond Bank or Counsel to the owners of the Bonds and who is acceptable to the Trustee.

"Outstanding" or "Bonds Outstanding" means all Bonds which have been authenticated and delivered by the Trustee under the Indenture, including Bonds held by the Bond Bank, except:

(1) Bonds canceled after purchase in the open market or because of payment at or redemption prior to maturity;

(2) Bonds deemed paid under the Indenture; and

(3) Bonds in lieu of which other Bonds have been authenticated under the Indenture or under any Supplemental Indenture.

"Principal Payment Date" means the maturity date or the mandatory sinking fund redemption date of any Bond.

"Program" means the program for purchasing Qualified Obligations by the Bond Bank pursuant to the Act.

"Program Expenses" means all of the fees and expenses of the Trustee and costs of determining the amount rebatable, if any, to the United States of America under the Indenture, all to the extent properly allocable to the Program.

"Purchase Agreement" means a Qualified Entity Purchase Agreement between the Bond Bank and a Qualified Entity, pursuant to which one or more Qualified Obligations are sold to the Bond Bank.

"Purchase Contract" means the Bond Purchase Agreement, for the Series 2002 E Bonds between the Bond Bank and the Underwriters, dated September 6, 2002, the form of which was approved at the meeting of the Board of Directors of the Bond Bank on August 13, 2002.

"Qualified Entity" means an entity defined in IC 5-1.5-1-8, as amended from time to time, including the Series 2002 E Qualified Entities.

"Qualified Obligation" means a Security (as that term is defined in the Act), including the Series 2002 E Qualified Obligations, which has been acquired by the Bond Bank pursuant to the Indenture.

"Qualified Obligation Interest Payment" means that portion of a Qualified Obligation Payment which represents the interest due or to become due on a Qualified Obligation held by the Trustee pursuant to the Indenture.

"Qualified Obligation Payment" means the amounts paid or required to be paid, from time to time, for principal of and interest on a Qualified Obligation held by the Trustee pursuant to the Indenture.

"Qualified Obligation Principal Payment" means that portion of a Qualified Obligation Payment which represents the principal due or to become due on a Qualified Obligation held by the Trustee pursuant to the Indenture.

"Rebate Fund" means the fund by that name created by the Indenture.

"Record Date" means, with respect to any Interest Payment Date, the fifteenth day of the calendar month immediately preceding such Interest Payment Date.

"Redemption Account" means the account by that name created by the Indenture.

"Redemption Price" means, with respect to any Bond, the principal amount thereof, plus the applicable premium, if any, payable upon redemption prior to maturity.

"Refunding Bonds" means Bonds issued pursuant to the Indenture and any Supplemental Indenture.

"Reserve Requirement" means an amount equal to the least of (i) the maximum annual debt service on the Bonds, (ii) ten percent of the original stated principal amount of the Bonds, or (iii) 125 percent of average annual debt service on the Bonds, which at the time of issuance of the Series 2002 E Bonds means an amount equal to $895,612.50.

"Revenues" means the Funds and Accounts and all income, revenues and profits of the Funds and Accounts referred to in the granting clauses of the Indenture, including, without limitation, all Qualified Obligation Payments.

"S&P" means Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, or any successor thereto.

"Series of Bonds" or "Bonds of a Series" or "Series" or words of similar meaning means any Series of Bonds authorized by the Indenture or by a Supplemental Indenture.

"Series 2002 E Bond Insurance Policy" means the insurance policy issued by the Series 2002 E Bond Insurer guaranteeing the scheduled payment of principal of and interest on the Series 2002 E Bonds when due.

"Series 2002 E Bond Insurer" means Financial Security Assurance Inc.

"Series 2002 E Bonds" means the Indiana Bond Bank Special Program Bonds, Series 2002 E, issued pursuant to the Indenture.

"Series 2002 E Qualified Entities" means White River Township Public Building Corporation, the Town of Pittsboro and the City of Loogootee.

"Series 2002 E Qualified Obligations" means the Qualified Obligations listed and described on Appendix B attached hereto.

"State" means the State of Indiana.

"Supplemental Indenture" means an indenture supplemental to or amendatory of the Indenture, executed by the Bond Bank and the Trustee in accordance with the Indenture.

"Trustee" means Union Federal Bank of Indianapolis, a federal savings bank duly organized and existing under the laws of the United States of America with its principal corporate trust office located in Indianapolis, Indiana, or any successor thereto under the Indenture.

"Trust Estate" means the property, rights, and amounts pledged and assigned to the Trustee pursuant to the granting clauses of the Indenture.

"Underwriters" mean with regard to the Series 2002 E Bonds, NatCity Investments, Inc. and McDonald Investments Inc.

APPENDIX F

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium: $

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]	FINANCIAL SECURITY ASSURANCE INC.
By ______________________________	By ______________________________ Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd. (212) 826-0100
350 Park Avenue, New York, N.Y. 10022-6022

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